

STATEMENT 3.310**AUDITING GUIDELINE****REPORTS BY AUDITORS ON FINANCIAL STATEMENTS**

*(Issued April 1984; reviewed April 1991; revised September 1991;
revised June 1993)*

Introduction

1. Statement of Auditing Standard 3.102 "The audit report" applies to all reports in which the auditor expresses an opinion on financial statements intended to give a true and fair view of the state of affairs, profit or loss and, where applicable, changes in financial position.
2. This Auditing Guideline, which gives guidance on how that standard may be applied, should be read in conjunction with the Explanatory Foreword to Auditing Standards and Guidelines.

Annual financial statements**Addressee and scope of report**

3. The auditor of a company has a duty under the Companies Ordinance to make a report to the members of the company on the financial statements examined by him. Specifically, he is required to report on every balance sheet and profit and loss account and on all group financial statements laid before the company in general meeting during his tenure of office. In the case of a partnership, the addressee will normally be the partners and the auditor should specify the financial statements to which the audit report relates.

Standards followed

4. The auditor should specify the standards he has followed in conducting his audit. The audit of the financial statements of a company should always be carried out in accordance with Auditing Standards and the auditor should confirm that he has done so in his report.

The audit opinion

Requirements

5. The Companies Ordinance requires the auditor to state in his report whether, in his opinion, a true and fair view is given:
 - a. in the balance sheet, of the state of the company's affairs at the end of the financial year;
 - b. in the profit and loss account (if not framed as a consolidated account), of the company's profit or loss for the financial year; and
 - c. in the case of group financial statements, of the state of affairs and profit or loss of the company and its subsidiaries dealt with by those financial statements.
6. The auditor is also required to state whether, in his opinion, the financial statements have been properly prepared in accordance with the Companies Ordinance. In this context, the expression "properly prepared" includes compliance with the requirements of the Companies Ordinance with respect to the form and content of the balance sheet and profit and loss account and any additional information to be provided by way of notes to the accounts, subject to an overriding requirement that the financial statements should give a true and fair view.
7. The most important statutory requirement placed on the directors of a company in relation to its balance sheet and profit and loss account is that they should give a true and fair view of the state of affairs and the profit or loss of the company and, where relevant, of the group. Similarly the most important statutory requirement placed on the auditor of a company is to express his opinion in relation to this. In considering whether the financial statements give a true and fair view, it will be necessary for the auditor to take account, inter alia, of the requirements of relevant Statements of Standard Accounting Practice (SSAPs). SSAPs describe methods of accounting approved by the Council of the Hong Kong Society of Accountants for application to all financial statements intended to give a true and fair view of the state of affairs and profit or loss.

Non-compliance with accounting standards

8. When the auditors conclude that the financial statements of a company do not comply with accounting standards contained in SSAPs, they assess:
 - a. whether there are sound reasons for the departure;
 - b. whether adequate disclosure has been made concerning the departure from accounting standards;
 - c. whether the departure is such that the financial statements do not give a true and fair view of the state of affairs and profit or loss.

In normal cases, a departure from accounting standards will result in the issue of a qualified or adverse opinion on the view given by the financial statements.

9. If the auditor considers that a departure is not justified and that the true and fair view shown by the financial statements is thereby impaired, he should, in addition to referring to the notes and disclosing the necessary information in his report express a qualified opinion and quantify the financial effect of the departure, unless this is impracticable. If it is considered impracticable to give this quantification, the reasons should be stated.
10. All significant departures from SSAPs made by the directors in preparing the financial statements should be referred to in the notes to the financial statements and, unless the auditor concurs with the departure, in the auditors' report. The extent of the detailed description in the auditors' report will depend upon whether the departure is fully explained in the notes. If it is, the auditor need make only a brief reference to the circumstances and the note thereon in his report, but if it is not, a more detailed reference will be necessary.
11. If, in exceptional circumstances, the auditor considers that the directors, in preparing the financial statements, have necessarily departed from an SSAP in order to show a true and fair view, he need make no reference to the departure in his report, provided that the reasons for the departure are fully explained in the notes to the financial statements. If the departure is not referred to in these notes, the auditor should refer to it in his report and state that he concurs. In these circumstances, the auditor should not express a qualified opinion or

quantify the financial effect of the departure on the financial statements.

12. Where no explanation is given for a departure from accounting standards, its absence may of itself impair the ability of the financial statements to give a true and fair view of the company's state of affairs and profit or loss. When auditors conclude that this is so, a qualified or adverse opinion on the view given by the financial statements is appropriate, in addition to a reference (where appropriate) to the non-compliance with the specific requirement of company law.
13. There may be rare circumstances in which adherence to an SSAP does not, in the auditor's view, produce a true and fair view. In such circumstances, the auditor should express a qualified opinion and quantify the financial effect on the accounts, unless this is impracticable.

Non-compliance with SSAP 15

14. SSAP 15 requires, with certain specified exemptions, that financial statements include a cash flow statement. It follows from the principle stated in paragraph 7 above, where required by SSAP 15, these cash flow statements are normally necessary in order that the financial statements give a true and fair view, as required by the Companies Ordinance.
15. Omission of a cash flow statement from the financial statements should be assessed under the criteria set out in paragraph 8. Normally, in accordance with the guidance given in paragraph 9, a qualified opinion will result. An example of the opinion paragraph of the audit report is shown below.

"As explained in note ... the financial statements do not contain a statement of cash flows as required by SSAP 15. Net cash flows for the year ended 31 December 19.. amounted to HK\$..... and in our opinion information about the company's cash flows is necessary for a proper understanding of the state of affairs of the company and of its profit (loss).

Except for the failure to provide information about the company's cash flows, in our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 19.. and of its profit (loss) for the year then ended and have been properly prepared in accordance with the Companies Ordinance."

Information required by the Companies Ordinance

16. In relation to the requirements of the Companies Ordinance, the auditor is concerned with the following matters in addition to the overriding requirement as to the true and fair view of the financial statements mentioned above:
- a. whether the financial statements comply with the sections of the Ordinance dealing with the form and content of financial statements (sections 123, 125 and 126, together with the disclosure requirements set out in the Tenth Schedule);
 - b. whether the financial statements disclose certain information as follows:
 - i. directors' emoluments, pensions and compensation for loss of office (section 161);
 - ii. loans to directors and officers (section 161B).

The auditor is required under the Companies Ordinance to provide in the audit report the information listed in b. above if it is not disclosed in the financial statements.

Exception reporting

17. The auditor is also required under the Companies Ordinance to report by exception if he is unable to satisfy himself that:
- a. proper books of account have been kept (section 141 (4)(a));
 - b. proper returns adequate for the purposes of his audit have been received from branches not visited (section 141 (4)(a));
 - c. the financial statements are in agreement with the books and the returns received from branches (section 141 (4)(b)); and

~~[Text continues on page 5.]~~

- d. he has obtained all the information and explanations which he requires (section 141 (6)).

The absence of any comment in the audit report in respect of these matters is equivalent to a positive affirmation by the auditor that he is satisfied with each of them. If he is not so satisfied, he must qualify his audit report.

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18 In considering whether proper accounting records have been kept, the auditor should assess whether the provisions of section 121 of the Companies Ordinance have been complied with. If the company has not kept such records, the auditor must qualify his report accordingly. In this situation he will normally also need to state in his report that:

- a. the scope of his audit work was limited; and
- b. he has not obtained all the information and explanations he required.

Dating of the audit report

- ~~17~~
19 The Companies Ordinance requires that, following approval by the board of directors, the balance sheet is signed by two of the directors of the company on behalf of the board. The auditor should not sign and date his report until the financial statements have been so approved and he has completed his audit, which includes performing procedures relating to events occurring up to the date of his report (see the Auditing Guideline 3.252 "Events after the balance sheet date").

Audit reports on group accounts

- ~~18~~
20 Under section 124 of the Companies Ordinance, holding companies have to publish "group accounts". "Group accounts" is an all embracing term covering the combination of the information shown in the financial statements of the holding company and its subsidiaries.

- ~~19~~
21 The report which the auditor is required to give on group accounts necessitates the auditor stating:

- a. whether the group accounts have been properly prepared in accordance with the provisions of the Ordinance; and

- b. whether the group accounts give a true and fair view of the state of affairs of the company and the group and of the profit or loss and changes in financial position of the group.

The auditor should report on the financial statements of a holding company and on the relevant group accounts in a single report.

~~20.~~ 22 The auditor is required to report that the group accounts have been audited in accordance with Auditing Standards. Thus he will need to ensure that, insofar as is relevant to the audit of the group accounts as a whole, the financial statements of subsidiary and associated companies (where applicable) have been audited in accordance with Auditing Standards.

~~21.~~ 23 The following additional guidance is given in respect of qualifications on group accounts:

a. *Holding company qualification affecting group accounts*

When reporting on group accounts, the auditor is required to report on the financial position of both the holding company and the group. When a qualification relates to both the holding company's own balance sheet and to the consolidated balance sheet, it will be unnecessary to distinguish between the holding company's financial position and the group's financial position. Where a qualification relates to the holding company balance sheet but not to the consolidated balance sheet, or vice versa, the opinion paragraph will have to be worded accordingly, and care should be taken to ensure that the opinion is expressed in clear and unequivocal terms.

b. *Subsidiary company qualification affecting group accounts*

Where the financial statements of a subsidiary company contain a qualification which is not eliminated on consolidation and is material to the consolidated figures, it will be necessary to consider:

- i. whether the qualification affects the holding company's own balance sheet;
- ii. whether it affects only the consolidated balance sheet and the consolidated profit and loss account.

In either event the audit report on the group accounts must be worded to include whatever reference is appropriate to the items which have been the subject of qualification.

c. *Qualification of group accounts only*

Even though the audit reports of individual group companies may be unqualified, if, in the auditor's opinion, the group accounts as a whole do not give a true and fair view, it may be necessary to qualify the audit report on the group accounts.

Subsidiaries' and associated companies' financial statements audited by other auditors

22. The auditor is fully responsible for his opinion on the group accounts and need not for this reason refer in his report to the fact that the financial statements of some subsidiary or associated companies have been audited by other auditors. However, the shareholders of the holding company are entitled to know that the financial statements of some of the companies in the group have been audited by other auditors and the materiality of those companies to the group, and accordingly the appropriate information should be disclosed. A suitable way in which this information may be included is to state in the schedule of principal subsidiary and associated companies, which of those companies have been audited by the other auditors. It is also desirable to indicate thereon the significance to the group of the companies that have been so audited by reference to the amount of their assets, sales or profits or losses before tax.

Dates of financial statements of subsidiaries

23. Where the financial statements of the subsidiary companies are not all co-terminous with those of the holding company, it will be necessary to consider whether this affects the true and fair view. The following factors should be taken into account:
- 25
- a. the significance of the proportion of the group represented by the subsidiary companies not having co-terminous year ends;
 - b. the length of the period between the subsidiary and group year ends;
 - c. whether significant movements have taken place between the two dates in either:
 - i. the subsidiaries' profits or losses, so as to affect the group results; or
 - ii. the subsidiaries' balance sheets, which might show abnormal movement in cash or other balances so as to affect the state of affairs of the group.

24. In cases where the subsidiaries represent a material part of the group and the subsidiaries' accounts are drawn up to a date more than three months before the group year end, the auditor should consider drawing attention to the position by means of an "emphasis of matter". If, however, the true and fair view is prejudiced, he should qualify his report accordingly.

Statements on which the auditor does not normally report

25. Frequently the following accompany the financial statements:
- 27 a. directors' report;
 - b. chairman's statement;
 - c. information supplementary to the financial statements.

To indicate that the auditor is neither responsible for nor reporting on such statements, it is usual for him to be specific as to the actual financial statements on which he is reporting by identifying the page numbers containing the financial statements as follows:

"We have audited the financial statements on pages ... to ... in accordance with Auditing Standards."

28. Although he is not responsible for the additional statements referred to in paragraph 25, there could be a belief on the part of the reader that the auditor has in fact satisfied himself that the information is accurate or at least not misleading. The auditor should therefore ensure that the additional information is not materially inconsistent or misleading before signing his report (see the Auditing Guideline 3.255 "Financial information issued with audited financial statements").

Special classes of companies

29. Certain classes of companies (banking, insurance and shipping companies) are exempted by Part III of the Tenth Schedule from disclosing in their financial statements certain of the matters which are required by the Tenth Schedule to be disclosed in the financial statements of other companies. Where a company has availed itself of any of the relevant exemptions, it is necessary to state in the audit report whether the financial statements have been prepared in accordance with the provisions of the Companies Ordinance

applicable to the special class of companies concerned. Whilst it is acknowledged that the financial statements of such companies which have been drawn up after availing themselves of these exemptions do not, for that reason only, necessarily fail to give the true and fair view required by the Companies Ordinance, the true and fair view in such circumstances is necessarily dependent on the level of disclosure, particularly where there have been transfers to or from inner reserves. It is therefore appropriate for the auditors of such entities to adopt the wording of section 141(3)(b) of the Companies Ordinance and to relate the true and fair view specifically to the basis on which the financial statements have been prepared.

28. Where a company has availed itself of any of the exemptions, this should be appropriately described in the financial statements. Hence, where the financial statements do not give a true and fair view by reason of items being inadequately or unsuitably described, the audit report should be qualified. For example, in the case of a bank which has transferred amounts to or from inner reserves, but failed to state this fact, the auditors' report would be qualified as follows:

“The profit for the year, shown as HK\$., is arrived at after transferring sums to inner reserves and, in our opinion, should be so described.

Except for this omission, in our opinion,”

It will not be necessary to specify the amount involved in such qualifications.

29. Section 141D empowers shareholders of certain private companies to waive compliance with various requirements as to disclosures in financial statements. Where a company avails itself of the provisions of section 141D, the auditors' report shall be modified as set out in that section.

Firms, sole traders, trusts, clubs and similar undertakings

30. The foregoing paragraphs relate to the form of audit report to be used by auditors of limited companies. Where an audit is carried out on the financial statements of a firm, sole trader, trust, club or similar undertaking, the form of report will depend on the terms of the appointment and any definition of duties which may be agreed. Reports on such financial statements should be based upon the wording used for reports of limited companies (with appropriate changes) as far as possible.

Other reports arising from the audit report

~~31.~~
33 The Companies Ordinance requires the auditor to give other reports arising from his normal audit report. As stated in the Auditing Standard 3.102 "The audit report" the principles of that Standard will normally be applicable when giving these reports.

Distributions (section 79G(4))

~~32.~~
34 The Companies Ordinance prohibits all companies from making a distribution otherwise than out of profits available for the purpose. Where a qualified audit report has been given on the last annual financial statements the company's ability to make a distribution, by reference to those financial statements, could be in doubt, and the company may not proceed to do so unless the auditor has made a statement under section 79G(4) concerning the company's ability to make the distribution. For the purpose of this additional statement a qualified audit report is specified by section 79G(3) as a report which is not without qualification to the effect that in the auditors' opinion the accounts have been properly prepared in accordance with the Companies Ordinance.

~~33.~~
35 The auditors' statement under section 79G(4) will incorporate the following elements:

- a. *Addressee* — the statement required of the auditor can be included as a separate paragraph in the audit report to the members on the financial statements. If, instead, a separate statement is made then it would be appropriate for it to be addressed to the members and sent to the company secretary.
- b. *Scope of report* — the statement is restricted to an evaluation of the auditors' qualified report on the last annual financial statements in the context of distributable profits.
- c. *Standards followed* — the auditor should refer to his audit which will have been carried out in accordance with Auditing Standards and state that his opinion was qualified.
- d. *Opinion* — the auditor must state whether in his opinion the subject matter of the qualification is material for determining whether proposed distributions, and those which have not yet been proposed, are permitted. A qualification is not material for this purpose if the financial effect of the matters giving rise to qualification could not be such as to reduce the distributable profits below the levels required for the purpose of such distributions. The level of the proposed or potential distribution should always be quantified in the opinion.

Where the maximum effect of a qualification is unquantifiable, it would normally be material for distribution purposes unless the auditor can conclude that the effect of the qualification on the distributable profits could only be favourable. A disclaimer of opinion on the financial statements as a whole would be material as the auditor would be unable to form an opinion on the amount at which the company's distributable profits are stated.

- e. *Date* — if a separate statement is made, the date used should be that on which the statement is completed. In any case the statement must be available to be laid before the company in general meeting before the distribution in question is made, and so the report will have to be completed by that date.

- 36 ^{34.} On a change of auditors, the report under section 79G(4) can only be made by the auditor who reported on the last annual financial statements.

Other reports required

- 37 ^{35.} Other special statutory reports may be required of the auditor that do not arise from the audit report given on the annual financial statements. Some of these are summarised in paragraphs 36 to 39.

Redemption or purchase by a private company of its own shares out of capital (section 49K(5))

- 38 ^{36.} Where a private company redeems or purchases its own shares wholly or partly out of capital, this must be approved by a special resolution of the company to which special voting rules apply. In addition, the Companies Ordinance requires the directors to make a statutory declaration in the prescribed form specifying the capital payment permitted by section 49I(3). A factor in computing the capital payment permitted by the Ordinance must be the amount of the company's distributable profits, determined by the directors by reference to accounts prepared as at any date within the three months prior to the date of their statutory declaration. The relevant accounts for this purpose are such as to enable a reasonable judgement to be made as to the amounts of profits, losses, assets and liabilities, provisions, share capital and reserves. In the statutory declaration the directors must also state that, having made full inquiry into the affairs and prospects of the company, they have formed the opinion:

- a. that there will be no ground on which the company could be found to be unable to pay its debts immediately after the date on which the payment out of capital is proposed to be made (for this purpose the directors must take account of all the company's prospective and contingent liabilities); and
- b. that, having regard to their intentions with respect to the management of the company's business during the year immediately following that date and to the amount and character of the financial resources which will in their view be available to the company during that year, the company will be able to continue to carry on business as a going concern throughout the year, and that accordingly the company will be able to pay its debts as they fall due throughout that year.

The declaration must be delivered to the Registrar and must be available at the meeting at which any special resolution is to be proposed approving the payment out of capital.

^{37.}
₃₉ The auditor is required to make a report regarding the directors' declaration to be attached to the declaration. It will incorporate the following elements:

- a. *Addressee* — the report should be addressed to the directors.
- b. *Scope of report* — the report concerns the directors' declaration.
- c. *Standards followed* — the Companies Ordinance requires that the report shall state that the auditor has inquired into the state of the company's affairs. The Ordinance does not prescribe the scope of the work to be carried out by the auditor, but it will involve, as a minimum, a review of the bases for the statutory declaration by the directors.
- d. *Opinion* — the auditor is required to state that:
 - i. the amount specified in the directors' declaration as the permissible capital payment for the shares in question is, in his opinion, properly determined in accordance with sections 49I and 49J of the Companies Ordinance; and
 - ii. he is not aware of anything to indicate that the opinion expressed by the directors in their declaration as to any of the matters mentioned in section 49K(3) is unreasonable in all the circumstances.

- e. *Date* — the directors' declaration and therefore the attached auditors' report are required to be made in the week before the resolution is passed specifying the amount of the permissible capital payment for the shares in question. The auditors' report should not be dated earlier than the date of the directors' declaration to which it relates.

There is no provision for the report to be qualified. The auditor should not issue any report unless his opinion is unqualified.

Distributions by listed companies; the use of initial accounts (section 79I(4))

- 34 36
38. Paragraphs ~~32~~ to ~~34~~ of this Guideline describe the statement required where a company wishes to make a distribution and a qualified audit report has been given on the annual financial statements. A company may wish to make a distribution during its first accounting reference period or after the end of that period but before the accounts for that period have been laid before a general meeting. "Initial accounts" must be prepared for this purpose which, in the case of a listed company, are required to comply with section 123 of, and the Tenth Schedule to, the Companies Ordinance with respect to the form and content of the balance sheet and profit and loss account and any additional information to be provided by way of notes to the accounts. Group accounts are not required. The initial accounts must be approved by and signed on behalf of the directors in the same manner as annual financial statements, and must be delivered to the Registrar.
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39. In the case of a listed company, the auditor is required to make an audit report on the initial accounts. The report will incorporate the following elements:
- 41
- a. *Addressee* — the Ordinance does not state to whom the report should be addressed; in the absence of any other requirement it may be addressed to the directors.
 - b. *Scope of report* — the report is concerned with the initial accounts. The period covered by the initial accounts should be identified.
 - c. *Standards followed* — the audit of the initial accounts should be carried out in accordance with Auditing Standards, and the auditor should refer to this fact in his report.

- d. *Audit opinion* — the auditor must state whether, in his opinion, the accounts have been properly prepared within the meaning of section 79I(2). For these purposes, the term “properly prepared” means that the accounts must give a true and fair view of the state of the company’s affairs as at the balance sheet date and of its profit or loss for the relevant period, and must comply with the provisions of section 123 of, and the Tenth Schedule to, the Companies Ordinance subject to such modifications as are necessary because the accounts do not relate to a financial year.

If the opinion above is qualified, the auditor must state whether the matter giving rise to the qualification is material for determining whether the distribution is permitted (see paragraph 33).

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- e. *Date* — the same principles apply for initial accounts as for annual financial statements (see paragraph 17 above).

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APPENDIX

Audit report examples

The purpose of this Appendix is to provide examples of special purpose audit reports.

List of examples

Annual financial statements

1. Company submitting group accounts
2. Company carrying on banking/insurance/shipping business
3. Partnership
4. Sole trader
5. Company applying section 141D

Other reports arising from the audit report

6. Statement required on a company's ability to make a distribution

Other reports required by the Companies Ordinance

7. Report required when a private company wishes to redeem or purchase its own shares out of capital
8. Report required on initial accounts when a listed company wishes to make a distribution

Note: Industry guidelines dealing with regulated companies include more detailed audit reports based on the provisions of the relevant Ordinances.

Example 1: Company submitting group accounts

AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 19.. and of the profit and changes in financial position of the group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

..... (Name of Auditors)
Certified Public Accountants
Hong Kong

..... (Date)

Example 2: Company carrying on banking/insurance/shipping business**AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED**

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

In our opinion, the financial statements have been properly prepared in accordance with the provisions of the Companies Ordinance applicable to banking/insurance/shipping companies and, on that basis, give a true and fair view of the state of the company's affairs at 31 December 19.. and of its profit for the year then ended.

..... (Name of Auditors)
Certified Public Accountants
Hong Kong

..... (Date)

Example 3: Partnership

AUDITORS' REPORT TO THE PARTNERS OF XYZ & CO.

We have audited the financial statements on pages to ... in accordance with Auditing Standards.

In our opinion, the financial statements give a true and fair view of the state of the partnership's affairs at 31 December 19.. and of its profit and changes in financial position for the year then ended and comply with the provisions of the Partnership Agreement.

..... (Name of Auditors)
Certified Public Accountants
Hong Kong

..... (Date)

Note: This example assumes that a full audit has been carried out. If the partners have requested assurance on any additional matter, specific reference should be made to this in the report.

Example 4: Sole trader**AUDITORS' REPORT TO MR. X SOLE PROPRIETOR OF XYZ**

We have audited the financial statements on pages ... to ... in accordance with Auditing Standards.

In our opinion, the financial statements give a true and fair view of the state of affairs of the sole proprietorship at 31 December 19.. and of its profit and changes in financial position for the year then ended.

..... (Name of Auditors)
 Certified Public Accountants
 Hong Kong

..... (Date)

- Notes:**
1. This example assumes that an audit is required. In cases where no audit is performed, the accountants' report may be as follows: "Without carrying out an audit, we have prepared the financial statements on pages ... to ... from the books and records of and, from information and explanations supplied to us."
 2. Where the client has given any particular instructions concerning the scope of the audit, the above report will need to be amended to refer specifically to such instructions.

Example 5: Company applying section 141D

AUDITORS' REPORT TO THE MEMBERS OF XYZ LIMITED

We have audited the balance sheet together with the notes thereon in accordance with Auditing Standards and have obtained all the information and explanations we have required.

In our opinion, the balance sheet together with the notes thereon is properly drawn up so as to exhibit a true and correct view of the state of affairs of the company at 31 December 19. . according to the best of our information and the explanations given to us and as shown by the books of the company.

..... (Name of Auditors)
Certified Public Accountants
Hong Kong

..... (Date)

Example 6: Statement required on a company's ability to make a distribution

**AUDITORS' STATEMENT TO THE MEMBERS OF XYZ LIMITED
PURSUANT TO SECTION 79G(4) OF THE COMPANIES
ORDINANCE**

We have audited the financial statements of XYZ Limited for the year ended 31 December 19. . in accordance with Auditing Standards and have expressed a qualified opinion thereon.

In our opinion the subject matter of that qualification is not material for determining, by reference to those financial statements, whether the distribution (interim dividend for the year ended) of HK\$. proposed by the company is permitted under section 79F of the Companies Ordinance.

..... (Name of Auditors)
Certified Public Accountants
Hong Kong

..... (Date)

Notes: 1. Where the amount of the dividend has not yet been determined, the auditors' statement should be expressed in terms of the company's ability to make potential distributions up to a specific level. The opinion paragraph will be worded as follows:

"In our opinion the subject matter of that qualification is not material for determining, by reference to those financial statements, whether a distribution of not more than HK\$. by the company would be permitted under section 79F of the Companies Ordinance".

2. This example assumes that a separate report is given regarding the company's ability to make a distribution. This matter is sometimes referred to in the statutory audit report by adding a separate paragraph. That paragraph might be worded as follows:

“In our opinion the subject matter of the foregoing qualification is not material for determining whether the distribution of HK\$. proposed by the company is permitted under section 79F of the Companies Ordinance”.

Example 7: Report required when a private company wishes to redeem or purchase its own shares out of capital

**AUDITORS' REPORT TO THE DIRECTORS OF XYZ LIMITED
PURSUANT TO SECTION 49K(5) OF THE COMPANIES
ORDINANCE**

We have examined the attached statutory declaration of the directors dated in connection with the company's proposed purchase of (number) ordinary shares by a payment out of capital and reserves. We have enquired into the state of the company's affairs so far as necessary for us to review the bases for the statutory declaration.

In our opinion, the amount of HK\$..... specified in the statutory declaration of the directors as the permissible capital payment for the shares to be purchased is properly determined in accordance with sections 49I and 49J of the Companies Ordinance.

We are not aware of anything to indicate that the opinion expressed by the directors in their declaration as to any of the matters mentioned in section 49K(3) of the Companies Ordinance is unreasonable in all the circumstances.

..... (Name of Auditors)
Certified Public Accountants
Hong Kong

..... (Date)

Example 8: Report required on initial accounts when a listed company wishes to make a distribution

**AUDITORS' REPORT TO THE DIRECTORS OF XYZ LIMITED
PURSUANT TO SECTION 79I(4) OF THE COMPANIES
ORDINANCE**

We have audited the initial accounts of XYZ Limited on pages ... to ... in accordance with Auditing Standards.

In our opinion the initial accounts for the period from to have been properly prepared within the meaning of section 79I of the Companies Ordinance.

..... (Name of Auditors)
Certified Public Accountants
Hong Kong

..... (Date)