



**3 October 2016**

**To: Members of the Hong Kong Institute of CPAs  
All other interested parties**

**INVITATION TO COMMENT ON EXPOSURE DRAFT REVISED HONG  
KONG STANDARD ON INVESTMENT CIRCULAR REPORTING  
ENGAGEMENTS (HKSIR)**

***HKSIR 200 Accountants' Reports on Historical Financial Information in  
Investment Circulars***

***Comments to be received by 3 December 2016***

The Hong Kong Institute of Certified Public Accountants' (Institute) Auditing and Assurance Standards Committee is seeking comments on the Exposure Draft which has been posted on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/>

In 2001, the Institute embarked on a project to develop new standards and guidance to the members on the reports and letters that are issued by reporting accountants, and on the preparation by the directors of listing applicants/listed companies of financial information, in connection with the issuance of investment circulars including prospectuses.

In 2004, the Institute issued an Exposure Draft ("2004 ED") of a comprehensive and robust set of standards and guidance for members in performing listing engagements. The 2004 ED contained an Explanatory Memorandum and a set of 7 proposed standards and guidance. The 2004 ED can be found on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/accountants-report-project/>

Since 2004, some of the standards and guidance proposed in the 2004 ED have been finalized as well as the development of new standard (e.g. HKSIR 500, *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness*). The Institute has been working with the industry to finalise outstanding pronouncements over the years.

The key objective of the proposed HKSIR 200 is to provide an up to date guidance to the profession for the preparation of an accountants' report under the current Listing Rules of The Stock Exchange of Hong Kong Limited by codifying existing practice.



The reporting requirements under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance for reporting accountants remain the same and hence, there is no change to the responsibilities of the reporting accountants.

HKSIR 200 is proposed to be issued on a standalone basis, whilst ongoing discussion with stakeholders to finalise HKSIR 100. It is believed that this would be beneficial to the members in providing guidance on the preparation of accountants' reports.

The proposed HKSIR 200 will supersede extant AG 3.340 *Prospectuses and the reporting accountant* when issued in final.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the Exposure Draft to be considered, comments on the exposure draft are requested by the due date shown above.

Comments may be sent by mail, fax or e-mail to:

Standard Setting Department  
Hong Kong Institute of Certified Public Accountants  
37/F., Wu Chung House  
213 Queen's Road East  
Hong Kong

Fax number (+852) 2865 6776

E-mail: [commentletters@hki CPA.org.hk](mailto:commentletters@hki CPA.org.hk)

Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

3 October 2016  
Exposure Draft

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Response Due Date  
3 December 2016

*ED of Proposed HKSIR 200*

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# **Accountants' Reports on Historical Financial Information in Investment Circulars**



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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ED of Proposed HKSIR 200 *Accountants' Reports on Historical Financial Information in Investment Circulars*

This Exposure Draft may be filed in the “Exposure Drafts, Invitations to Comment” section of Volume III of the Institute Members’ Handbook.

The Exposure Draft can also be found on the Institute’s website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/>.



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

HKSIR 200  
Issued [            ]

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Effective for engagements where the  
investment circular is dated on or after [1 July 2017]  
Early application is permitted

*Hong Kong Standard on  
Investment Circular Reporting Engagements 200*

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# **Accountants' Reports on Historical Financial Information in Investment Circulars**



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

**HONG KONG STANDARD ON  
INVESTMENT CIRCULAR REPORTING ENGAGEMENTS 200**

**ACCOUNTANTS' REPORTS ON  
HISTORICAL FINANCIAL INFORMATION IN INVESTMENT CIRCULARS**

(Effective for engagements where the investment circular is dated on or after [1 July 2017])  
(Early application is permitted)

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Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* should be read in the context of the *Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* which sets out the application and authority of HKSIRs.

This HKSIR reflects the Listing Rules/GEM Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance that were in effect as at [date].

## Introduction

1. In Hong Kong, section 31 to section 33 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which is effective from 3 March 2014 sets out the requirements for inclusion of an accountants' report in a prospectus. In addition, the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited and on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited establish further circumstances where an accountants' report is required to be included in an investment circular. Chapter 4 of the Listing Rules and Chapter 7 of the GEM Rules provide detailed guidance on the preparation of accountants' reports to be included in an investment circular. The purpose of this HKSIR is to establish specific standards and provide guidance for reporting accountants engaged to issue an accountants' report on historical financial information for inclusion in an investment circular.
2. Reporting accountants should also comply with HKSIR 100 *Investment Circulars and Reporting Accountants* when it is finalised and issued by the Hong Kong Institute of Certified Public Accountants.
3. The definitions used in this HKSIR are:
  - a. Accountants' report on Historical Financial Information: A report by the reporting accountants included in an investment circular as required by Chapter 4 of the Listing Rules or Chapter 7 of the GEM Rules.
  - b. Circular: An announcement or document issued by an issuer for the information or action of holders of any of its securities as required by the Listing Rules/GEM Rules.
  - c. Consent letter: A letter whereby the reporting accountants consent to the inclusion in an investment circular of references to their name or the inclusion of any of their reports which are to be published therein in accordance with the Listing Rules/GEM Rules and/or the Companies (Winding Up and Miscellaneous Provisions) Ordinance.
  - d. GEM Rules: Rules Governing the Listing of Securities on GEM.
  - e. GEM: The Growth Enterprise Market operated by the Stock Exchange.
  - f. HKSA: Hong Kong Standards on Auditing.
  - g. Institute or HKICPA: Hong Kong Institute of Certified Public Accountants.
  - h. Investment Circular: A document issued by an entity relating to securities and for the information or investment decision of the holders of the entity's securities or other parties, including without limitation a listing document, a prospectus, a circular to shareholders or similar document.
  - i. Listing Rules: Rules Governing the Listing of Securities on the Stock Exchange
  - j. Prospectus: A document which has the same meaning as in section 2(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

- k. Reporting accountants: Certified public accountants who are engaged to prepare public reports and letters for inclusion in, or private letters in connection with, an investment circular. Where the context requires, this term includes auditors where they are carrying out a role in connection with an investment circular, other than that of reporting as auditors on financial statements.
- l. Securities: Including but not limited to equity securities and debt securities as defined by the Listing Rules/GEM Rules.
- m. Sponsor: Any corporation or authorised financial institution, licensed or registered under applicable laws to advise on corporate finance matters and appointed as a sponsor by a new applicant under the Listing Rules / GEM Rules to assist the new applicant with its initial application for listing.
- n. Stock Exchange: The Stock Exchange of Hong Kong Limited.
4. The nature of the accountants' report is such that the objective of the reporting accountants' exercise does not differ in essence from that of an auditor. The underlying requirement of this HKSIR is that the reporting accountants will, in conducting the work necessary to provide the accountants' report, perform or rely on work that meets those requirements of HKSAAs, or other equivalent auditing standards<sup>1</sup>, that are applicable to the reporting accountants' exercise. The reporting accountants apply HKSAAs on the basis set out in this HKSIR in the context of the following:
- a. the reporting accountants are often reporting on financial information that has been included in, or formed part of, financial statements which have themselves already been subject to audit by an independent auditor; either by the same firm as the reporting accountants or by another firm of auditor. In consequence, there may be available to the reporting accountants a body of independent evidence relating to the historical financial information which would not be available to the auditor examining the financial information for the first time;
  - b. the financial information being examined may relate to accounting periods in circumstances where financial statements for one, and possibly two, subsequent periods have been prepared and audited. These circumstances mean that in assessing risks that may affect the historical financial information in relation to earlier periods the reporting accountants have the benefit of information relating to uncertainties affecting the financial information which would not have been available to auditor auditing the information for the first time; and
  - c. the reporting accountants do not have the statutory reporting responsibilities of auditor (for example there is no requirement to report if proper accounting records have not been kept by the entity). Details of the reporting responsibilities of an auditor under the Hong Kong Companies Ordinance (Cap. 622) are set out in Practice Note 600.1 (Revised) "Reports by the Auditor under the Hong Kong Companies Ordinance (Cap. 622)".
5. This HKSIR provides standards that address those aspects of the reporting accountants' exercise that require the reporting accountants to perform procedures directly, for example risk assessment procedures. It also provides guidance on the application of HKSAAs to the reporting accountants' exercise.

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<sup>1</sup> References hereinafter to HKSAAs should be taken to apply equally to other equivalent auditing standards.

6. For the purpose of this HKSIR:
- a. "Underlying Financial Statements" refers to special purpose audited financial statements prepared solely in connection with the investment circular. Underlying Financial Statements may comprise a single set of special purpose financial statements of the entity, the contents of which are consistent with the historical financial information set out in the investment circular. Alternatively, Underlying Financial Statements may comprise two or more sets of special purpose financial statements at the intermediate holding company level which together form the basis of the historical financial information set out in the investment circular. Underlying Financial Statements and the auditor's report thereon would normally be dated the same date as the accountants' report.
  - b. "Previously Issued Financial Statements" refers to previously issued financial statements of the entity and/or its subsidiaries upon which the historical financial information as shown in the investment circular may in certain circumstances be based. Since they have been issued for a purpose other than in connection with the investment circular, Previously Issued Financial Statements and the auditor's report thereon would be dated earlier than the date of the accountants' report.
  - c. "Historical Financial Statements" is used in this HKSIR to refer to the financial statements upon which the historical financial information in the investment circular is based. Historical Financial Statements most commonly take the form of "Underlying Financial Statements". Alternatively, in certain circumstances Historical Financial Statements may take the form of Previously Issued Financial Statements or other unaudited financial information.
  - d. "Historical Financial Information" refers to the financial information as shown in the accountants' report included in the investment circular.
  - e. The terms "entity", "Company", "issuer" or "listing applicant" refer to the reporting entity preparing the subject investment circular. In the case of an investment circular prepared for a purpose that involves a proposed acquisition transaction, the term "entity" refers to the subject of the proposed transaction, that is, the target company or target business.

This HKSIR recognises that the reporting accountants may wish to use evidence previously obtained by the auditor who audited the Historical Financial Statements for the relevant period covered by the reporting accountants' exercise. Guidance is provided on the steps that the reporting accountants undertake, including initial planning considerations, in order to assess the suitability of the audit evidence for this purpose.

7. Subject to the considerations set out in this HKSIR, references in the HKSA to the auditor performing audit procedures or obtaining audit evidence may be read as references to the reporting accountants being satisfied that the procedures have been performed, or the evidence obtained, either by the reporting accountants or auditor.
8. HKSA are applicable to the reporting accountants' exercise in respect of Historical Financial Information except when the requirement of an HKSA is predicated on a continuing relationship between auditor and the entity being audited, or where the requirement is replaced by the specific nature of the reporting accountants' responsibilities under applicable regulations as discussed in this HKSIR.

### **Respective Responsibilities of the Directors and the Reporting Accountants**

9. The reporting accountants should obtain written acknowledgement from the directors of their responsibility for the historical financial information (see paragraphs 62-68).

10. The directors are responsible for the preparation of Historical Financial Information which gives for the purpose of the accountants' report a true and fair view for inclusion in investment circulars.
11. Historical Financial Information is based on the records of the entity for the periods reported on. These records reflect the representations and intentions of the management. Matters such as the selection of accounting policies, accounting estimates and valuation judgements form part of the responsibilities of management in compiling a record of its stewardship.
12. It is the reporting accountants' responsibility to form an opinion on the Historical Financial Information and to issue an accountants' report setting out that opinion. The accountants' report should state clearly that the Historical Financial Information (as set out on the relevant pages) forms an integral part of the accountants' report received from the reporting accountants for incorporation in the Investment Circular.

### **True and Fair View, for the Purposes of the Accountants' Report**

13. The reporting accountants should:
  - a. obtain an understanding of the purpose of the investment circular;
  - b. ascertain which financial reporting framework is required to be used by the applicable regulations and which, if any, conventions commonly used as to the preparation of Historical Financial Information for inclusion in investment circulars are to be applied; and
  - c. consider the appropriateness of the accounting policies,

in order to determine whether the proposed Historical Financial Information is capable of giving a true and fair view, for the purposes of the accountants' report.
14. Certain conventions are commonly used in the preparation of Historical Financial Information in investment circulars. These conventions have been developed to the extent consistent with established accounting principles, to fulfil the criteria set out in the relevant regulations, present the information in an easily analysable form, and give a true and fair view for the purposes of the accountants' report. The Historical Financial Information includes disclosure of any conventions that have been applied in its preparation.
15. Appendix 2 of this HKSIR provides a summary of the conventions commonly used in the preparation of Historical Financial Information in investment circulars. In certain circumstances applying the conventions may result in combined, rather than consolidated, financial information being presented in order to meet the requirement to present financial information that gives a true and fair view, for the purposes of the accountants' report.
16. The directors of the entity are responsible for selecting appropriate accounting policies for the business of the entity. The reporting accountants consider whether the accounting policies adopted in the preparation of the Historical Financial Information are appropriate for the business of the entity and whether such policies are consistent with the applicable financial reporting framework.
17. Where the investment circular involves a proposed acquisition transaction by the issuer, the directors of the issuer are responsible for the contents of the investment circular in which the Historical Financial Information of the target is included, and such information is prepared based on accounting policies materially consistent with those of the issuer. The reporting accountants satisfy themselves that the accounting policies adopted in preparation of the Historical Financial Information of the target are materially consistent with those of the issuer. The reporting accountants also consider whether the policies are consistent with the applicable financial reporting framework.

## General Professional Considerations

18. In the conduct of an engagement involving an investment circular, the reporting accountants should comply with the requirements of the Code of Ethics for Professional Accountants issued by the HKICPA.
19. While it is not the responsibility of the reporting accountants to judge the appropriateness, or otherwise, of a proposed transaction, in respect of which they have been engaged, there may be rare circumstances where reporting accountants consider the proposed transaction, or their proposed association with the transaction, to be so inappropriate that the reporting accountants cannot properly commence work or continue to act.
20. The reporting accountants should agree the terms of the engagement with those from whom they accept instructions. All the terms of the engagement should be recorded in writing.
21. Where the evidence used by the reporting accountants includes that contained within the working papers of an auditor, the working papers of the reporting accountants identify the papers reviewed and the nature of the work performed. Whilst it is not necessary for the working papers to replicate all of the detailed findings contained in the auditor's working papers, the reporting accountants do document the basis on which the auditor addressed the particular risks identified in the reporting accountants' risk assessment procedures.
22. In considering the requirements of HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* and HKSA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* for the auditor to report any matters arising to certain authorities, the reporting accountants will need to assess the effect of these requirements when reporting in terms of the true and fair view, for the purposes of the accountants' report. Where matters arise which may potentially require disclosure by the reporting accountants and the reporting accountants are unsure how to proceed, the reporting accountants should take legal advice.
23. In applying HKSA 240, HKSA 250 and HKSA 260 (Revised), *Communication With Those Charged With Governance*, the reporting accountants consider who, in relation to the investment circular, would be regarded as a person charged with governance. Where the issuer has already formed an audit committee, the reporting accountants communicate with the audit committee in accordance with the guidance set out in this HKSIR. In the absence of an audit committee those responsible for governance will usually be the directors of the issuer.

## Planning

24. The reporting accountants should perform and document risk assessment procedures to support the reporting accountants' exercise.
25. In addition, reporting accountants may consider:
  - a. any modifications to the auditor's report on Historical Financial Statements and the potential impact on the approach to the reporting accountants' exercise;
  - b. the nature of adjustments to Historical Financial Statements which the preparer of the Historical Financial Information represents as necessary (for example as a result of correction of errors, achieving consistent accounting policies or changing the applicable financial reporting framework) and the sources of evidence to support the adjustments;
  - c. the interaction with other roles undertaken by the reporting accountants in connection with the transaction;
  - d. staffing, including relevant experience and skills linked to investment circular reporting, and sources of consultation;

- e. liaison with the auditor and arrangements for terms of access to the auditor's working papers, or equivalent evidence if maintained in electronic form;
  - f. the nature and timing of procedures to support any decision to rely on evidence obtained by the auditor;
  - g. whether the financial reporting framework applicable to the Historical Financial Statements is the same as that applicable to the financial information contained in the investment circular;
  - h. whether there are any special circumstances concerning the appointment, resignation or reporting responsibilities of the auditor;
  - i. whether there is evidence of any limitation having been placed on the work of the auditor; and
  - j. whether corrections or adjustments to subsequent financial statements indicate possible inadequacies in the audits of earlier periods.
26. Where the reporting accountants are considering using audit evidence obtained by the auditor as part of the evidence for the reporting accountants' exercise, the reporting accountants should consider the professional qualification, independence and professional competence of the auditor and the quality control systems applied by the audit firm to that engagement.
27. Matters that the reporting accountants consider include:
- a. the integrity and experience of the auditor;
  - b. whether the auditor was required to apply HKSA's or equivalent standards; and
  - c. whether there is any evidence that the auditor has not complied with applicable independence requirements.

### **Understanding of the Entity, its Environment and Risk Assessment**

28. The reporting accountants should obtain an understanding of the entity and its environment, including its internal controls, sufficient to identify and assess the risks of material misstatement of the Historical Financial Information covered by the accountants' report whether due to fraud or error, and sufficient to design and perform further procedures.
29. Such an understanding is ordinarily obtained by:
- a. meeting the directors and management of the entity;
  - b. visiting the entity's premises;
  - c. discussing the financial information and recent results with management;
  - d. applying analytical procedures to the financial information; and
  - e. obtaining from management an understanding of the principal transaction flows, internal controls and reporting arrangements of the business.
30. If this process indicates that there are factors which may give rise to a modification of the reporting accountants' opinion, an emphasis of matter or a material uncertainty related to going concern then such factors are reported immediately to those responsible for the investment circular, usually the directors of the issuer and any other responsible parties, for example, the sponsors in the case of an initial listing application.

31. In considering areas of risk in relation to the periods for which Historical Financial Information is presented, the reporting accountants have regard to the probability that misstatements in earlier periods, if they exist, are likely to have been detected in subsequent periods. Account is also taken of the fact that other uncertainties, particularly those affecting subjective matters in the Historical Financial Information, may have been resolved with the passage of time.
32. When performing the risk assessment, the reporting accountants should take into account all other relevant work performed in connection with the investment circular.
33. The reporting accountants may be undertaking other relevant work related to the transaction giving rise to the accountants' report. For example, the reporting accountants may have been commissioned to prepare a comfort letter on a statement of sufficiency of working capital.
34. If other relevant work has been performed by another firm the reporting accountants should request the issuer to provide access to such work. If the reporting accountants are not allowed access to such work they should consider the implications for their report.

### **Materiality**

35. The reporting accountants determine materiality for the purposes of the reporting accountants' work independently from the auditor who previously audited the Historical Financial Statements, and accordingly the reporting accountants' assessment of materiality may differ from that of the auditor. In determining materiality for the purposes of reporting on Historical Financial Information, regard is had to the context in which the opinion is to be given (which includes the fact that the information may relate to a trend of results over the track record period).

### **The Reporting Accountants' Procedures**

36. The reporting accountants should perform procedures to obtain sufficient appropriate evidence that the work of auditor which the reporting accountants plan to use is adequate for the reporting accountants' purposes. Where the reporting accountants conclude that the auditor's work is not adequate, or the reporting accountants do not have access to the auditor's working papers, the reporting accountants should perform procedures that compensate for this. The procedures of the auditor and the reporting accountants, taken together, should meet the requirements of HKSA's unless:
  - a. a requirement is not applicable to the reporting accountants' engagement, as discussed in this HKSIR; or
  - b. it is not practicable for the reporting accountants to undertake such procedures.
37. If the reporting accountants decide not to comply with a requirement of HKSA's because it is not practicable for it to undertake such procedures (for example, if there has been a change in an auditing standard during the latest period which requires certain procedures to be carried out at a physical inventory count at the balance sheet date, it may not be practicable for the reporting accountants to undertake such procedures in respect of physical inventory counting for prior periods), it should document the reason for not complying with the requirement and why its omission does not have an impact on its opinion.
38. In approaching the procedures to be performed in response to the assessed risk of material misstatement at the assertion level, the reporting accountants consider the extent to which the procedures that the reporting accountants wish to perform have previously been performed by the auditor. Where such procedures have been performed by the auditor, the reporting accountants may, subject to the considerations discussed in this HKSIR, use the evidence obtained by the auditor from those procedures as part of the reporting accountants' own evidence.

39. Where applicable auditing standards have changed during the period covered by the Historical Financial Information, or it is not practicable for the reporting accountants to undertake procedures that meet the requirements of HKSA's, the reporting accountants consider the implications for the reporting accountants' exercise, having regard to their risk assessment, including the potential need to perform additional procedures.
40. When the reporting accountants intend to use audit evidence obtained by the auditor, they should evaluate whether the audit procedures performed by the auditor adequately respond to the reporting accountants' assessment of the risks (including significant risks requiring special audit consideration) of material misstatement of the financial information to be included in the investment circular.
41. The reporting accountants' procedures should include:
- a. examining material adjustments from Historical Financial Statements made during the course of preparing the Historical Financial Information and considering whether the adjustments are necessary and whether they have been correctly determined;
  - b. evaluating whether all necessary adjustments to Historical Financial Statements have been made; and
  - c. comparing the Historical Financial Information to Historical Financial Statements and assessing whether the information has been accurately extracted therefrom.
42. In certain areas, use of the work of the auditor may be the only practicable means of obtaining the evidence necessary to support the reporting accountants' opinion<sup>2</sup>. The timing of the reporting accountants' own work will inevitably be dictated by the timing of the preparation of the Historical Financial Information and the related investment circular and this may be some time after the end of the periods to which the report relates.

## Evidence

43. When the reporting accountants are engaged to prepare an accountants' report, the reporting accountants should obtain sufficient appropriate evidence to express an opinion as to whether the financial information presents a true and fair view, for the purposes of the accountants' report.
44. The reporting accountants should evaluate the quality of the audit evidence obtained by the auditor that the reporting accountants intend to rely on. Where the reporting accountants conclude that such audit evidence is either not sufficient or is inappropriate for the purposes of the reporting accountants' exercise, the reporting accountants should obtain evidence directly. The reporting accountants should also obtain evidence directly to the extent that the Historical Financial Information is based on material unaudited financial information. Where the evidence is not available, the reporting accountants should consider the implications for their report.
45. Where the Historical Financial Information is derived from audited Historical Financial Statements, the audit files will frequently be a useful source for the evidence which the reporting accountants may need to provide an opinion on the Historical Financial Information.
46. When audited Historical Financial Statements have been used as the basis for the Historical Financial Information upon which they are reporting, the reporting accountants consider whether applicable HKSA's were complied with by the auditor of the entity. The reporting

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<sup>2</sup> For example, procedures which require the reporting accountants to be physically present at a client site at a relevant date (such as attendance at physical inventory counting) will clearly be impossible to perform.

accountants assess the extent to which they are able to rely on the auditor's work and the further evidence they need to support their own opinion. When the Historical Financial Information is not derived from audited Historical Financial Statements the reporting accountants comply with HKSA's in performing their own work to the extent that the reporting accountants judge applicable. In these circumstances much of this work is being done with the benefit of hindsight.

47. The reporting accountants accept evidence on an audit file as being prima facie truthful and genuine, but in considering that evidence adopt an attitude of professional skepticism, whether the audit file was produced by an auditor from the reporting accountants' firm or by the other auditor. However, with respect to audit files obtained from their own firm, reporting accountants are more familiar with the detailed quality control procedures that will have been applied in the conduct of the audit. The extent to which independent testing of the evidence provided will be necessary is a matter for the reporting accountants' judgement on the basis of the information available at the time, including their assessment of the risks of misstatement.
48. Where the reporting accountants intend to rely on internal controls, the reporting accountants perform tests of control when unable to rely on the auditor's tests of such internal controls. This is likely to arise when:
  - a. the auditor has not performed tests of those internal controls; or
  - b. the auditor has performed tests of internal controls but the internal controls have subsequently changed.
49. Where relevant information is not available from the audit working papers, the reporting accountants will need to obtain the relevant evidence directly. The audit working papers are unlikely for example, to contain information concerning events after the reporting period up to the date of signing the accountants' report.
50. When the issuer's auditor, or former auditor, are not appointed as the reporting accountants, they will be aware that the reporting accountants may need to meet them and obtain access to information contained in the audit files. The auditor or former auditor is normally prepared to meet with the reporting accountants and make its audit files available in accordance with relevant professional guidance to reporting accountants for the purpose of work under this HKSIR.
51. If access is granted, it would normally be on the basis that the auditor accepts no responsibility or liability to the reporting accountants in connection with the use of the audit working papers by the reporting accountants. Such a basis of access has no effect on the validity or otherwise of auditor's working papers as a source of evidence for the reporting accountants. The reporting accountants use their own judgement in determining whether they can rely on the audit working papers as appropriate evidence. The reporting accountants, however, do not use the conclusions recorded in the auditor's working papers as a substitute for their own judgement.
52. The matters that are considered in the course of planning what reliance might be placed upon the work of auditor and the degree of independent testing which may be necessary, particularly where the auditor is subject to different regulatory requirements, will normally include:
  - a. What is known about the professional qualification and integrity of the auditor?
  - b. What auditing standards and requirements apply to the work of the auditor?
  - c. Are there any special circumstances concerning the appointment of the auditor and to whom does it report?
  - d. Are the reporting accountants able to satisfy themselves that the auditor is independent in all respects?

- e. Has any limitation been placed on the work of the auditor (either in terms of access, time etc., or because of the level of remuneration) or has it been free to decide on the scope and level of its audit tests?
  - f. Has the work of the auditor been conducted to an appropriate materiality level?
  - g. Has the auditor in fact complied with the basic principles and essential procedures in HKSAAs, with which auditor is required to comply in the conduct of any audit (or with equivalent overseas standards)?
  - h. Do corrections or adjustments to subsequent financial statements indicate possible inadequacies in the audits of earlier periods?
  - i. Was the auditor's report modified?
53. Whether or not the reporting accountants have access to the auditor's working papers, they seek to obtain, either from the directors or from the auditor, copies of management letters sent by the auditor to the entity and copies of any responses to such letters made by the directors.

#### **Evidence from Other Sources**

54. Notwithstanding that evidence is to be or has been obtained from an assessment of the auditor's working papers, the reporting accountants will usually seek direct evidence from the entity to be reported on. Such direct evidence is usually obtained from, but is not limited to, the following sources:
- a. by meeting the directors and management of the entity;
  - b. by visiting the entity's premises;
  - c. from discussing the Historical Financial Information and recent results with management;
  - d. from applying analytical procedures to the Historical Financial Information; and
  - e. from obtaining an understanding of the principal transaction flows, internal controls and reporting arrangements of the business.

#### **Analytical Procedures**

55. Reporting accountants apply analytical procedures at the planning and at the evidence gathering stages of the assignment as well as part of the overall review when completing the assignment. When significant fluctuations or unexpected relationships are identified that are inconsistent with other relevant information, reporting accountants investigate and obtain explanations. Where practicable, they discuss with management the features and trends of the results during the relevant period.
56. The reporting accountants may be engaged to issue a number of reports and letters related to the securities transaction giving rise to the accountants' report. Evidence obtained as a result of such other work may form part of the basis for the reporting accountants' opinion included in the accountants' report.

#### **Joint Reporting Accountants**

57. When joint reporting accountants are appointed the division of work as between them is a matter for agreement. The arrangements between the joint reporting accountants may form part of the engagement letter. Irrespective of any such arrangement, the joint reporting accountants are jointly and severally responsible for the entire accountants' report. Each of the joint reporting accountants participates in the planning of the engagement and they agree

upon the scope of work and any changes subsequently found to be necessary thereto. Each of the joint reporting accountants has regard to the considerations set out above in respect of using the work of other auditor in determining the extent to which they are satisfied to rely on the evidence obtained by the other reporting accountants or the extent to which they consider it necessary to carry out their own work, including especially the matters set out in paragraph 52 above. Each of the joint reporting accountants review the work of the other to the extent considered necessary and records the results of that review.

### **Events Occurring up to the Date of the Reporting Accountants' Report**

58. The Underlying Financial Statements and the related auditor's report would normally be dated the same date as the accountants' report. Accordingly, all subsequent events would have already been considered for the purposes of the Underlying Financial Statements. Where the Historical Financial Information is based on Previously Issued Financial Statements or unaudited management accounts, reference is made to the guidance set out in the relevant financial reporting and auditing framework in determining whether adjustment is to be made for events occurring subsequent to the reporting period.

### **Events Occurring between the Date of the Reporting Accountants' Report and the Completion Date of the Transaction**

59. In the period between the date of the reporting accountants' report and the completion date of the transaction, the reporting accountants may become aware of events and other matters which might have caused the reporting accountants to issue a different report or to withhold consent. In such a case, the reporting accountants should discuss the implications of the events or other matters with those responsible for the investment circular and take additional action as appropriate.
60. For the purpose of this HKSIR, after the date of the accountants' report, the reporting accountants have no obligation to perform procedures or make enquiries regarding the investment circular.
61. If, as a result of discussions with those responsible for the investment circular concerning a subsequent event that occurred prior to the completion date of the transaction, the reporting accountants are either uncertain about or disagree with the course of action proposed, the reporting accountants may consider it necessary to take legal advice with respect to an appropriate course of action.

### **Management Representations**

62. The reporting accountants should obtain appropriate written confirmation of representations from the directors of the entity.
63. Written confirmation of representations made by the directors on matters material to the reporting accountants' report should be obtained. These representations also encompass statements or opinions attributed to directors, management, employees or agents of the entity, which are relied upon by the reporting accountants. The directors' representation letter is usually dated the same date as the relevant accountants' report.
64. Representations by the directors of the issuer cannot replace the evidence that the reporting accountants could reasonably expect to be available to support any opinion given, if any. An inability to obtain sufficient and appropriate evidence regarding a matter could represent a limitation of scope even if a representation has been received on the matter.

65. A number of specific representations are required by HKSAAs. Where representations have been obtained by the auditor, subject to the considerations set out in this HKSIR, it may not be necessary for the reporting accountants to seek further representations covering the same matters, other than in relation to the period since the audit opinion relating to the final period included in the Historical Financial Information was given.
66. Representations additional to those pursuant to HKSAAs that the reporting accountants may consider for incorporation in the letter of representation include confirmation from the directors or management of the entity that (i) they are responsible for the preparation of the Historical Financial Information; (ii) any adjustments made to Historical Financial Statements for the purposes of preparing the Historical Financial Information are necessary; and (iii) such information gives a true and fair view for the purpose of the accountants' report.
67. For listing applications, reporting accountants are required to issue a confirmation (the "Reporting Accountants' Confirmation") to the applicant that no significant adjustment or modification is expected to be made to the draft reports included in the investment circular based on the work done as of the date of the confirmation, when the application proof is submitted. If there are any updates to the financial information after the submission of the application proof, the reporting accountants must also provide a similar confirmation on the updated financial information at the same time the information is submitted to the Stock Exchange. Accordingly, the reporting accountants should obtain, where applicable, the directors' representation letter on the date of the Reporting Accountants' Confirmation to support the issuance of the Reporting Accountants' Confirmation; and obtain additional or updating representation letter(s) when further confirmations are provided and final reports are issued.
68. In connection with the issue of a Reporting Accountants' Confirmation in respect of the draft accountants' report on the Historical Financial Information, the reporting accountants obtain a separate representation from the directors of the entity as of the date of the submission or re-submission of the application proof that:
- a. no significant adjustment is expected to be made to the draft accountants' report on the Historical Financial Information included in the draft investment circular; and, if applicable,
  - b. the stub period comparative financial information<sup>3</sup>, and the stub period financial information<sup>4</sup>, where appropriate, included in the draft accountants' report is prepared, in all material respects, in accordance with the basis of preparation and presentation as described in the draft accountants' report.

<sup>3</sup> The stub period comparative financial information refers to the comparative financial information of a stub period which may or may not form part of the final track record period, which must, as a minimum, be reviewed by the reporting accountants under Hong Kong Standard on Review Engagement 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("HKSRE 2410") as described in paragraph 80 of this HKSIR.

<sup>4</sup> The stub period financial information stated above refers to financial information for a current interim period included in an investment circular where the listing applicant submits or plans to submit under the early filing mechanism as set out in the guidance letter issued by The Stock Exchange of Hong Kong Limited "HKEx-GL6-09A - Guidance on the financial information for the trading record period expected in the first draft listing document for listing applications", which must, as a minimum, be reviewed by the reporting accountants under HKSRE 2410. Such stub period is expected to be superseded by an updated and final track record period to be included in the final prospectus. For example, the accountants' report of a December year end Main Board listing applicant which applies early filing may initially include a financial period covering full financial year ended 31 December 2014 and 2015, and a stub period for the nine months ending 30 September, 2016. As the final track record period to be included in the prospectus would cover the full three years ending 31 December 2016, the stub period for the nine months ending 30 September 2016 would be superseded and it must, as a minimum, be reviewed by reporting accountants under HKSRE 2410.

## Working Papers

69. The reporting accountants should document matters that are significant in providing evidence that supports the report provided and in providing evidence that the engagement was performed in accordance with this HKSIR. For example, the reporting accountants should record in the working papers their reasoning on all significant matters that require the exercise of judgement, and related conclusions.
70. The information to be recorded in the working papers is a matter of professional judgement since it is neither necessary nor practical to document every matter considered by the reporting accountants. When applying professional judgment in assessing the extent of documentation to be prepared and retained, the reporting accountants may consider what is necessary to provide an understanding of the work performed and the basis of the principal decisions taken to another person, such as reporting accountants, who have no previous experience with the engagement. That other person may, however, only be able to obtain an understanding of detailed aspects of the engagement by discussing them with the reporting accountants who prepared the documentation.
71. As regards the retention of engagement documentation, the reporting accountants should apply policies and procedures to ensure compliance with Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" paragraphs 47 and A60 to A62. For an engagement performed in accordance with this HKSIR, the retention period ordinarily is no shorter than five years from the date of the report issued by the reporting accountants.
72. A large part of the work performed will often take the form of reading files and documents and discussions with the issuer's management, staff and professional advisers. The working papers are designed so as to reflect adequately the nature of these procedures carried out, the evidence examined and the conclusions reached. Therefore, it is not usually necessary for the working papers to replicate all of the detailed findings contained in the auditor's working papers.

## Reporting

73. The following standards and guidance are applicable to accountants' reports on Historical Financial Information.

### Statement of Responsibility

74. The reporting accountants should distinguish between their responsibilities and those of the directors by including in their report:
- a. a statement that the preparation of Historical Financial Information is the responsibility of the directors; and
  - b. a statement that the reporting accountants' responsibility is to express an opinion on the Historical Financial Information.

### Basis of Opinion

75. Reporting accountants should explain the basis of their opinion by including in their report:
- a. a statement as to their compliance or otherwise with this HKSIR or the reasons for any departure therefrom; and
  - b. a statement that they planned and performed their work so as to obtain reasonable assurance as to whether the Historical Financial Information upon which their opinion is given is free from material misstatement.

**Expression of Opinion**

76. The accountants' report should contain a clear expression of opinion on the Historical Financial Information.
77. The reporting accountants' opinion is usually expressed in terms of whether the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the financial position, financial performance and cash flows in accordance with the basis of preparation and presentation set out in the notes to the Historical Financial Information that describes, among others, that the preparation of Historical Financial Information is in accordance with the stated accounting policies which conform with Hong Kong Financial Reporting Standards (or other applicable financial reporting framework).
78. The reporting accountants need to be satisfied that the Historical Financial Information adequately describes the applicable financial reporting framework, and makes reference to this in the report.
79. The reporting accountants should apply the principles set out in HKSA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* and HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* relating to modified reports. With respect to material uncertainties arising from the adoption of the going concern basis the reporting accountants should apply the principles set out in HKSA 570 (Revised), *Going Concern*.

**Review of stub period comparative financial information**

80. The Listing Rules/GEM Rules require that the reporting accountants should, as a minimum, carry out a review of any stub period comparative historical financial information in accordance with Hong Kong Standards on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Institute. The Listing Rules/GEM Rules provide that the stub period comparative financial information may alternatively be audited. The reporting accountants' report following their review or audit of the stub period comparative historical financial information is required to be included within the accountants' report.

**Comparatives**

81. The reporting accountants are required to express a true and fair opinion on the financial position as at each financial year end and as at any stub period date included in the Historical Financial Information and on the financial performance and cash flows for each of the associated financial years or stub period. The reporting accountants are also required to give a review conclusion on any stub period comparative historical financial information that is presented. The Historical Financial Information upon which the reporting accountants express a true and fair opinion does not constitute "comparative information" as contemplated by HKSA 710 *Comparative Information — Corresponding Figures and Comparative Financial Statements*. However, stub period comparative historical financial information does constitute "comparative information" as contemplated by HKSA 710. Accordingly, HKSA 710 is only applicable to the work of the reporting accountants in respect of stub period comparative information.

**Audit qualifications**

82. Where the auditor's report(s) on the Historical Financial Statements was qualified on grounds for example of failure to comply with an applicable accounting standard or disagreement over an accounting treatment, it may be possible to make adjustments to the Historical Financial Information so as to avoid a similar qualification in the accountants' report.

**References to previous audit opinions**

83. The reporting accountants' opinion is arrived at independently of any audit opinion previously given on the financial statements which form the basis for the financial information to be reported on. It is not part of the reporting accountants' role to explain (where this is the case) why the reporting accountants' opinion differs from the opinion of the auditor. However, the reporting accountants consider the issues leading to previously issued qualifications, if any, the implications for their report and whether any additional work needs to be performed to resolve such issues.

**Reference to dividends**

84. Section 31(1)(b) of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires disclosure of information about the rates of the dividends, if any, paid by the company in respect of each class of shares in the company in respect of each of the 3 financial years immediately preceding the issue of the prospectus, giving particulars of each such class of shares on which such dividends have been paid and particulars of the cases in which no dividends have been paid in respect of any class of shares in respect of any of those years. This information may be included in the section "Report on matters under the Listing Rules/GEM Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance" or in the notes to the Historical Financial Information as illustrated in Appendix 1 to this HKSIR.

**Reference to adjustments**

85. Section 42 of Part III of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires accountants' reports to either indicate by way of note any adjustments as respects the figures of any profits or losses or assets and liabilities dealt with by the report which appear to the persons making the report necessary or shall make those adjustments and indicate that adjustments have been made. The Listing Rules/GEM Rules also require that the reporting accountants state in their report that the Historical Financial Information is stated after making such adjustments to Historical Financial Statements as were considered necessary or, alternatively, that in preparing the Historical Financial Information no adjustments to Historical Financial Statements have been made. More guidance on adjustments is set out in Appendix 2 to this HKSIR.

**No Historical Financial Statements**

86. Section 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance requires that where no financial statements have been made up in respect of any part of the period of three years ending on a date three months before the issue of the prospectus, the accountants' report contains a statement of that fact.
87. Such statement is usually required where the entity, which is the subject of the investment circular, is incorporated shortly before the date of the investment circular.

**Date of Accountants' Report**

88. The accountants' report is dated on the same date as the investment circular in which it is included or to which it relates.

**Example Accountants' Report**

89. An example accountants' report on Historical Financial Information in an investment circular is set out in Appendix 1 to this HKSIR.

## Communication with Those Charged with Governance

90. Although HKSA 260 (Revised) is written in the context of an audit of financial statements, the reporting accountants may refer to such standard when they communicate with those charged with governance that have a responsibility to oversee the preparation of the Historical Financial Information for investment circulars. If an audit committee or equivalent body is not yet established at the time, the reporting accountants meet and discuss with the board of directors any significant findings on audit and accounting issues, difficulties encountered during the course of their work and other matters as set out in HKSA 260 (Revised). Their communication with those charged with governance may also be in writing.

## Reporting Accountants' Work for a Dual Listing Exercise

91. In the situation where an entity offers securities or seeks a listing of its shares on the Stock Exchange and other stock exchange(s) simultaneously and that entity proposes to engage the same reporting accountants to report on Historical Financial Information in the investment circulars for different stock exchanges, the reporting accountants need to consider whether they would satisfy the requirements in the relevant jurisdiction(s) which include, but are not limited to, their independence and qualification as auditor or reporting accountants under the applicable laws and regulations in the relevant jurisdiction(s), and whether their reports prepared pursuant to this HKSIR would also satisfy the requirements of the relevant exchange(s).

## Consent

92. Financial and other information is contained throughout an investment circular and not only in the accountants' report. Whilst the reporting responsibility of the reporting accountants does not extend beyond their own report, reporting accountants should consider the investment circular as a whole. Reporting accountants should be satisfied that nothing contained within the investment circular as a whole is inconsistent with the information in their report, and that all relevant matters which have come to their attention have been properly reflected. In particular, reporting accountants should take steps to make themselves aware of all the principal issues arising during the drafting of the investment circular. Reporting accountants should give consent where applicable to the publication of the investment circular containing their report only if they are satisfied with the form and context in which their report appears in the published investment circular. Appendix 3 of this HKSIR provides further guidance about the issuance of a letter of consent.

## Appendix 1 – Example Accountants' Report on Historical Financial Information in Investment Circulars

Circumstances include the following:

- The Accountants' Report on Historical Financial Information is assumed to be inserted at Appendix I of the investment circular.
- Pages I-1 to I-3 in this example are printed with the reporting accountants' letterhead and continuing pages

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*The following is the text of a report set out on pages I-1 to I-[ ], received from the Company's reporting accountants, ABC & Co., Certified Public Accountants, Hong Kong, for the purpose of incorporation in this investment circular.*

### APPENDIX I ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION

Letterhead of reporting accountants

#### **ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF XYZ LIMITED AND SPONSORS LIMITED**

##### ***Introduction***

We report on the historical financial information of XYZ Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages [I - 4] to [I - Z], which comprises the [consolidated /combined] statement of financial position<sup>1</sup> as at [respective dates of the reporting periods] and the [consolidated /combined] statements of profit or loss, the [consolidated/combined] statements of comprehensive income, the [consolidated/combined] statements of changes in equity and the [consolidated/combined] statements of cash flows for each of the periods then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages [I-4] to [I-Z] forms an integral part of this report, which has been prepared for inclusion in the investment circular of the Company dated [ ] (the "Investment Circular") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

##### ***Directors' responsibility for the Historical Financial Information***

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note X to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

[I - 1]

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<sup>1</sup> Terms like "the balance sheets", "the statement of comprehensive income" and "cash flow statements" as set out in Hong Kong Accounting Standard 1 (Revised) Presentation of Financial Statements, may be used as long as they are consistent with the titles of the corresponding statements in the historical financial information.

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ACCOUNTANTS' REPORT ON  
HISTORICAL FINANCIAL INFORMATION

Continuing page of reporting accountants

***Reporting accountants' responsibility***

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note X to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Opinion***

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of [the Company's and] (to insert as appropriate) the Group's financial position as at [respective dates of reporting periods] and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note X to the Historical Financial Information.

***Review of stub period comparative financial information***

We have reviewed the stub period comparative financial information of the Group which comprises statements of [consolidated/combined] profit or loss, comprehensive income, changes in equity and cash flows for the [x] months ended [date] and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note X to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note X to the Historical Financial Information.

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ACCOUNTANTS' REPORT ON  
HISTORICAL FINANCIAL INFORMATION

Continuing page of reporting accountants

**Report on matters under the Listing Rules/GEM Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

***Adjustments***

[In preparing the Historical Financial Information no adjustments to the Underlying Financial Statements as defined on page I-4 (case 1) have been made. / The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page I-4 (case 2) as were considered necessary. / The Historical Financial Information is stated after making such adjustments to the Historical Financial Statements as defined on page I-4 (case 3) as were considered necessary.]<sup>2</sup>

***Dividends***

We refer to note [ ] to the Historical Financial Information which [contains information about the dividends paid by XYZ Limited in respect of the Track Record Period/ states that no dividends have been paid by XYZ Limited in respect of the Track Record Period].

***No historical financial statements for the Company (where applicable)***

[No financial statements have been prepared for the Company since its date of incorporation to [the period of three years ending on a date three months before the issue of the investment circular].]

**ABC & Co.**  
**Certified Public Accountants**  
**Hong Kong**  
**Date**

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<sup>2</sup> Delete whichever is not applicable

APPENDIX I

ACCOUNTANTS' REPORT ON  
HISTORICAL FINANCIAL INFORMATION

**HISTORICAL FINANCIAL INFORMATION OF THE GROUP**

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

*Case 1 – Where the Historical Financial Information in the accountants' report is prepared based on a single set of special purpose financial statements of the entity, the following language may be used:*

"The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by [name of the firm] in accordance with [the applicable auditing framework] issued by [the relevant standard setting body] ("Underlying Financial Statements").

*Case 2 - Where the Historical Financial Information in the accountants' report is prepared based on two or more sets of special purpose financial statements at the intermediate holding company level, the following language may be used:*

"The Historical Financial Information in this report was prepared based on financial statements [and management accounts] of [names of various group entities] for the Track Record Period. The financial statements were audited by [name of firm] in accordance with [the applicable auditing framework] issued by [the relevant standard setting body] ("Underlying Financial Statements").

*Case 3 - Where the Historical Financial Information in the accountants' report is prepared based on Previously Issued Financial Statements or other unaudited financial information, the following language may be used:*

"The Historical Financial Information in this report was prepared based on Previously Issued Financial Statements [and management accounts] of [the Group/names of various group entities] for the Track Record Period. The Previously Issued Financial Statements were audited by [name of firm] in accordance with [the applicable auditing framework] issued by [the relevant standard setting body] ("Historical Financial Statements")"

The Historical Financial Information is presented in [HK dollars] and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

[CONSOLIDATED/COMBINED] STATEMENTS OF PROFIT OR LOSS

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ACCOUNTANTS' REPORT ON  
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[CONSOLIDATED/COMBINED] STATEMENTS OF COMPREHENSIVE INCOME

[I - 5]

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ACCOUNTANTS' REPORT ON  
HISTORICAL FINANCIAL INFORMATION

[CONSOLIDATED/COMBINED] STATEMENTS OF FINANCIAL POSITION

[I - 6]

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ACCOUNTANTS' REPORT ON  
HISTORICAL FINANCIAL INFORMATION

[CONSOLIDATED/COMBINED] STATEMENTS OF CHANGES IN EQUITY

[I - 7]

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ACCOUNTANTS' REPORT ON  
HISTORICAL FINANCIAL INFORMATION

[CONSOLIDATED/COMBINED] STATEMENTS OF CASH FLOWS

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ACCOUNTANTS' REPORT ON  
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NOTES TO THE FINANCIAL INFORMATION

X. Basis of preparation and presentation of Historical Financial Information

*Provide details of the Company and its subsidiaries, group reorganisation and details of business combination under common control where applicable and basis of presentation and conventions applied (e.g. ....As a result, the Historical Financial Information of the Group has been prepared as if the present group structure had been in place throughout the Track Record Period).*

*Also, state the fact that the Historical Financial Information has been prepared in accordance with the accounting policies set out in Note Y below which conform with the applicable financial reporting framework.*

Y. Significant accounting policies

Z. Other supporting notes as applicable (including information such as audited accounts which have been made up since the end of the last financial period reported on)

[I - Z]

## **Appendix 2 – Guidance on conventions commonly used in preparation of Historical Financial Information in Investment Circulars**

### **Introduction**

1. The purpose of this Appendix is to provide guidance concerning the conventions commonly applied for preparation and presentation of Historical Financial Information for inclusion in investment circulars.
2. The definitions of some of the special terms used in this appendix can be found in the "Definitions" in paragraph 3 of this HKSIR.
3. The directors are responsible for preparing Historical Financial Information for inclusion in investment circulars which gives, for the purposes of the accountants' report, a true and fair view of the financial position of the relevant reporting entity at the end of each reporting period and of the financial performance and cash flows of that relevant reporting entity for each of the periods ending on those dates. In the preparation of the Historical Financial Information, the directors have regard to, and make appropriate disclosure of, accepted conventions which have been developed for the preparation and presentation of Historical Financial Information in investment circulars (including those relating to additional disclosures). These conventions have been developed to assist the directors to fulfil the criteria set out in the relevant regulations, present the information in an easily analysable form, and give a true and fair view for the purposes of the accountants' report.

The conventions are described below.

### **Basis of preparation and presentation of Historical Financial Information**

4. Historical Financial Information for inclusion in an investment circular is most commonly prepared from Underlying Financial Statements without making adjustments. In certain circumstances, Historical Financial Information may be prepared from Previously Issued Financial Statements or from other unaudited financial information, in which case the Historical Financial Information may be presented after making such adjustments as considered necessary. For example, where a group reorganisation is to be completed after the reporting period or upon the adoption of a new or revised financial reporting framework in the final period presented which requires retrospective application, or correction of errors.
5. Information is added to the Historical Financial Information to identify:
  - a. the entity being reported on;
  - b. whether the Historical Financial Information is prepared based on Underlying Financial Statements or based on Previously Issued Financial Statements or from other unaudited financial information;
  - c. the auditor of the Historical Financial Statements throughout the period; and
  - d. whether any financial statements have been prepared for submission to the members for accounting periods later than the last period covered by the report.
6. The entity being reported on should be clearly defined. Accordingly, it may be necessary to give details of the group structure, significant changes during the period, and any reorganisation which has taken place since the date of the last audited financial statements. Where there has been a change in company name during the period or recent times, this should also be explained. If this information is complex and results in a paragraph which is disproportionately long in the context of the introduction section as a whole, it may be appropriate to include it as a separate paragraph elsewhere in the Historical Financial Information. The basis of preparation and presentation of Historical Financial Information

should also be stated in a prominent position where the Historical Financial Information has been prepared as if the present group structure had been in place throughout the track record period.

### **Adjustments to the Historical Financial Statements**

7. The Listing Rules/GEM Rules require the preparation of a "statement of adjustments" by the reporting accountants showing, with reasons, how the audited Historical Financial Statements have been adjusted, to arrive at the figures underlying those included in the accountants' report. Although no particular format is required for the statement, it should be sufficiently detailed to reconcile the figures in the Historical Financial Statements with those in the accountants' report. The preparation of a statement of adjustments satisfies the requirements of paragraph 42 of Part III of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance provided that the figures in the accountants' report are stated as being after making such adjustments as are considered appropriate.
8. Adjustments are made to the Historical Financial Statements in respect of material items in order to:
  - a. present the financial information for the track record period on the basis of consistent, acceptable and appropriately applied accounting policies and financial reporting framework (for example GAAP adjustments where there is a change in financial reporting framework, change in accounting policies and align the accounting policies of the acquiree with that of the acquirer in a business combination); and
  - b. correct material errors; and
  - c. eliminate intra-group balances and transactions where Historical Financial Information has been prepared on a combined basis for a business combination under common control (see paragraph 13 below).
9. Although retrospective adjustments may be made in respect of accounting policies, such adjustments should not be made for accounting estimates. Pursuant to Hong Kong Financial Reporting Standards, the effect of change in an accounting estimate in a later period should only be reflected in that period. Consideration should also be given to any additional disclosure which may be necessary by way of notes.
10. The Historical Financial Information is intended to provide a record of the business as operated and accounted for by the issuer's management. Therefore, it is not appropriate to make notional adjustments to recognise income or expenses or balances in order to make the "track record" more consistent with the entity's expected operations or structure following the transaction. Such adjustments would anticipate future events and are not consistent with the principle that the Historical Financial Information should record the events which actually occurred during the period of the Historical Financial Information.

### **Legal group not yet formed during the track record period**

11. Where the group reorganisation takes place after the end of the track record period and involves a reporting entity acquiring equity interests in companies which, together with the reporting entity, are held under common control, the Historical Financial Information will normally be presented on a combined basis (with eliminations for inter-company transactions and balances).
12. If Historical Financial Information is not presented on a combined basis, separate historical financial information for entities accounting for substantially the whole of the track record period is likely to be required.

**Carve outs**

13. Where a business has formed part of a larger group ("overall group") during the track record period, but has not been accounted for separately, it may be desirable to present a separate track record (a "carve out") for that business ("carve out business"), derived from the records of the overall group. This approach may be preferable to the alternative approach of presenting the track record of the overall group, with appropriate disclosures of operations discontinuing or not acquired by the reporting entity. Circumstances where a carve out approach might be followed include flotation of businesses in a spin-off of divisions of the overall group.
14. When considering whether it is appropriate to present carve out financial information, the following factors will be relevant:
  - a. The extent to which the carve out business has been separately managed and financially controlled within the overall group; and
  - b. The extent to which it is practicable to identify the historical financial information attributable to the carve out business.
15. Where the omission of the results and assets of those operations not the subject of the transaction concerned would be misleading in the context of the circumstances in which the Historical Financial Information is to be presented, it will generally be appropriate to adopt the approach of presenting financial information on the overall group. Disclosures are made to assist the user to understand the contribution made by the operations not the subject of the transaction concerned. However, each case will need to be assessed on its own facts and circumstances.
16. In preparing the track record for the carve out business, the guidance in paragraphs 13 to 15 of this Appendix will be relevant. The objective will be, so far as possible, to present a historical record reflecting the events which actually occurred in the reporting period. Whilst it may be possible to identify certain transactions and balances which clearly relate to the carve out business, there will often be cases where the accounting records do not differentiate between items which relate to the carve out business and items which relate to the remainder of the overall group's business. Examples include management overheads, funding arrangements and shared assets. The guidance below discusses some of the elements typically encountered in preparing a carve out track record.
17. Clear and comprehensive disclosure in the notes to the Historical Financial Information will normally be needed in the basis of preparation and presentation in order for the nature of the Historical Financial Information to be clearly understood. The description would be expected to give a general indication of the process adopted for the preparation of the Historical Financial Information, and describe any factors which are particularly important to an understanding of the manner in which the information has been prepared.
18. The accounting policies to be adopted in the carve out accounts will need to reflect the requirements relating to the presentation of Historical Financial Information and may differ from those previously adopted. The question of functional currency should also be considered having regard to the economic environment of the carve out business, which may lead to the adoption of a different functional currency from that of the overall group.

**Allocations**

19. Where transactions or balances are not accounted for within the overall group in a manner which clearly attributes them to the carve out business, it will generally be desirable for a method for allocating the relevant amounts to the carve out business to be identified with a view to providing the fairest approximation to the amounts actually attributable to the carve out business. Any method should be adopted and applied on a rational and consistent basis. It will not, however, be appropriate to make allocations where there is no rational or consistent basis for doing so.

**Bases for allocating transactions and balances**

20. The appropriate basis for allocating group income and expenditure to a carve out business will vary according to the circumstances. It may, for example, be appropriate to allocate centrally accounted-for human resources costs on the basis of headcount (but account might be taken also of relative levels of staff turnover or other factors which indicate greater or less than average use in deciding whether the approach was in fact appropriate). The costs of a head office accounts department might be allocated by reference to the relevant sizes of the carve out business and remaining group. If other factors suggest that size is not a good indicator – if for example a disproportionate number of the accounting team is engaged in work for one part of the business and not the other – refinements to the approach might be considered appropriate.
21. It is important to recognise that the purpose of the allocation is to attribute an appropriate element of the overall group record to the carve out business. As a consequence, the position shown will frequently not be that which might have existed if the carve out business had been a stand-alone business. The position will be affected by the arrangements which apply to the group as a whole, which are a matter of historical fact and which it is not the purpose of the carve out financial information to alter. Frequently, disclosure will be made accompanying the financial information highlighting that the information presented may not be representative of the position which may prevail after the transaction.
22. Where certain third party receivables and payables of the overall group relates to the carve out business, it may be appropriate to allocate such items to the carve out business during the historical track record period. The basis for such an allocation may be by reference to the terms of the separation agreement. In other cases, the receivables and payables may be treated as part of the carve out business' balance with the overall group. The allocation of interest income/costs relating to the carve out business would be allocated in line with the way in which the related assets and liabilities have been allocated.

**Relationship with the remaining group**

23. In addition to transactions with "third parties", the results of the business will also include transactions with the part of the overall group which is not part of the carve out business (the "remaining group"). Hence, for example, sales which were previously regarded as "intra group" will need to be re-examined to determine whether they relate to entities within the carve out business or outside it.
24. The remaining group will normally also be regarded as a related party for the purposes of disclosing related party transactions, and it will normally be necessary to identify the extent of the relationships between the carve out business and the remaining group. Balances with the remaining group may have comprised elements of trading balances and short term or long term funding balances, which may or may not be based on contractual arrangements between the remaining group and the carve out business. Balances of a trading nature will normally be presented as an element of debtors or creditors. Balances which are considered to be funding in nature will normally be accounted for according to their general nature and depending on whether there are contractual arrangements governing such balances. Where the balance has the characteristics of financial liabilities, it will be presented in the manner in accordance with the relevant financial reporting framework as such. Where the balance does not meet the definition of financial liabilities under the relevant financial reporting framework, it will be classified as an equity component and be presented in the manner of equity, typically aggregated with the share capital and reserves of companies comprising the carve out business, as "parent company net investment" in the carve out business.
25. Balances with the remaining group may also contain elements of third party debtors or creditors which have been accounted for on behalf of the carve out business by the remaining group. Examples might be VAT costs, payroll taxes, certain customers or suppliers common to the carve out business and the remaining group, and external funding balances. Such elements of the balance with the remaining group would be expected to be reallocated to the appropriate third party captions.

26. Consolidation journals within the overall group accounting records will need to be analysed and, if appropriate, allocated to the carve out business.

#### **Pension costs**

27. Where employees of the carve out business participate in a pension scheme relating to the overall group, the track record of the carve out business would reflect the apportioned costs applicable to the carve out business. The accounting implications of any pension surplus/deficit attributable to the carve out business would also normally be expected to be reflected in the track record.

#### **Acquisitions**

28. It should be noted that acquisitions previously regarded as insignificant for separate disclosure in the overall group accounts may become sufficiently material to require separate disclosure in the context of the carve out business.

#### **Disposals, non-recurring and exceptional items**

29. Non-recurring and exceptional items are generally allocated to the carve out business and accounted for in accordance with the relevant financial reporting framework. The disposals of subsidiaries or a discontinuation of a material section of the business are accounted for and presented in accordance with the requirements in the relevant financial reporting framework.

#### **Taxation**

30. Tax charges are generally allocated to the carve out business to reflect the proportion of the overall group charge attributable to the carve out business. The approach will typically involve the aggregation of the tax charges actually incurred by the companies within the carve out business (and will therefore reflect the benefits, reliefs and charges arising as a result of membership of the overall group), after taking account of the tax effects of any adjustments. Where the information relating to the tax charges actually incurred is not available, the tax charge may be recomputed on the basis of the results of the carve out business. The tax rate applied is selected having regard to the tax position of the overall group and might thus include the impact of benefits, reliefs and charges arising as a result of membership of the overall group, to the extent that they would have been available to or imposed upon the carve out business.

#### **Statements of cash flows**

31. A statement of cash flows is prepared for the carve out business based on the carve out information. To the extent that the related balances are kept separate for the carve out business, cash flows relating to the carve out business may be specifically allocated to the carve out business. However, where the overall group operates a central cash account, it may not be appropriate to allocate cash flows relating to centrally settled costs to the carve out business.

#### **Investments in subsidiaries, joint ventures and associates**

32. The status of an entity in the overall group's accounts (that is, whether it is recorded as a subsidiary, joint venture or associate) may be the result of investments in the relevant entity by more than one group company. If not all the investing companies are to be part of the carve out business, this may mean that the status of the entity in the track record of the carve out business is different from that within the overall group. Additional or new disclosures may therefore be required.

**Treatment of other items**

33. Dividends are expected to be reflected in the track record of the carve out business where companies within the carve out business have paid dividends to members of the remaining group.
34. In relation to the disclosure of directors' remuneration, it is normal to present information for those individuals who are to be directors of the carve out business or who were employed by the overall group in a capacity equivalent to that of a director of the carve out business. The information disclosed will reflect the salaries and benefits paid in respect of services to the carve out business by any member of the overall group to those individuals (irrespective of whether the individuals were directors or not) during the period covered by the track record. No information is presented for proposed directors of the carve out business who were not employed by the overall group, or for individuals who served as directors of companies within the carve out group but who are not to be directors of the carve out group's holding company following the transaction.
35. A segmental analysis is prepared for the carve out business to reflect the segments which the carve out business has decided to adopt.

**Other disclosure conventions**

36. In order to meet the disclosure requirements of the Listing Rules/GEM Rules, it may be necessary for certain information which has not previously formed part of an entity's financial reporting information to be incorporated in the Historical Financial Information. For example, additional disclosures are required for emoluments of directors and supervisors and segmental information.
37. In addition, in certain situations the Listing Rules/GEM Rules do not require disclosures in respect of earnings per share, for example, where combined results are presented in accordance with paragraph 4.09 of the Listing Rules/paragraph 7.03(5) of the GEM Rules.

**Disclosure of the conventions commonly adopted**

38. Where a convention described in this Appendix is applied and its application has a material effect on the financial information or is necessary for an understanding of the basis of preparation and presentation of the Historical Financial Information, it is appropriate to describe the treatment adopted in the basis of preparation and presentation note in the Historical Financial Information.

### Appendix 3 – Letter of consent

1. Where the reporting accountants are required to give consent to the inclusion of their public report, or references to their name, in an investment circular the reporting accountants should, before doing so, consider their public report in the form and context in which it appears, or is referred to, in the investment circular as a whole by:
  - a. comparing their public report together with the information being reported on to the other information in the rest of the investment circular and assessing whether the reporting accountants have any cause to believe that such other information is inconsistent with the information being reported on; and
  - b. assessing whether the reporting accountants have any cause to believe that any information in the investment circular which falls within the area of expertise of reporting accountants is misleading.

When the reporting accountants believe information in the investment circular is either inconsistent with their public report, together with the information being reported on, or misleading, the reporting accountants should withhold their consent until the reporting accountants are satisfied that their concerns are unwarranted or until the investment circular has been appropriately amended.

2. The reporting accountants should give consent to the inclusion of any report in an investment circular only when all relevant reports that it has agreed to make, in that investment circular, have been finalized.
3. A requirement for the reporting accountants to consent to the inclusion of their report in an investment circular arises from the Listing Rules/GEM Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, where a statement or report attributed to an expert (including the reporting accountants) is included in a prospectus or circular issued by a listed company (or by a new applicant for listing). In all such cases there must be a statement that the report is included in the investment circular, in the form and context in which it is included, with the consent of the expert.
4. Whilst the reporting accountants' reporting responsibilities do not extend beyond their report, the process of giving consent involves an awareness of the overall process whereby the investment circular is prepared, and may entail discussions with those responsible for the investment circular as a whole in relation to its contents.
5. In deciding whether to give their consent, the reporting accountants should read the final version of the investment circular with a view to assessing the overall impression given by the investment circular, having regard to the purposes for which it has been prepared, as well as considering whether there are any inconsistencies between their report and the information in the rest of the investment circular. As part of this process the reporting accountants consider whether they have any cause to believe that any information in the investment circular which falls within the area of expertise of the reporting accountants may be misleading such that the reporting accountants would not wish to be associated with it.
6. In cases where an investment circular includes a reference to or reproduction of a report or opinion previously provided by the existing or predecessor auditors, the auditors should assess the appropriateness of issuing a consent letter and perform appropriate procedures such as subsequent event review before issuing the consent letter. They should also state clearly that the consent should not be construed as in any way updating or refreshing the previous issued auditors' report nor do the auditors accept responsibility for such report beyond that owed to those to whom the report was addressed by the auditors at the date of the issue.
7. Consent letters are dated the same date as the relevant investment circular. The Listing Rules/GEM Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance require the consent letter to be made available for public inspection. The consent letter may be made available for public inspection in other cases where required by law or regulation. An example consent letter is set out below.

### Example Consent Letter

*This example is only illustrative and is not intended to be prescriptive as to the form or content of a consent letter.*

(Letterhead of the reporting accountants)

(Date)

The Directors  
XYZ Limited

Dear Sirs,

We refer to the [prospectus/circular]\* dated [date] in connection with [the proposed initial listing of shares of XYZ Limited (the "Company") on the [Main Board/Growth Enterprise Market]\* of The Stock Exchange of Hong Kong Limited (the "Prospectus") / the proposed [acquisition of [Name of the acquiree company] / disposal of [Name of the company being disposed] / the proposed debt offering]\* by XYZ Limited (the "Company") (the "Circular")]\*, a [copy / final proof]\* of which is attached and initialled by us on its front cover for the purpose of identification.

#### **Option 1: consent for inclusion of our reports and letters**

We hereby consent to the inclusion of our accountants' report dated [date] on the historical financial information for the years ended [dates] and our accountants' report dated [date] on the pro forma financial information for the year ended [date] and our letter dated [date] on the profit forecast for the year ending dated [date] in the Prospectus, and the references to our name in the form and context in which they are included.

#### **Option 2: consent for reproduction/ incorporation by reference of our previous report**

We hereby consent to the [reproduction/incorporation by reference]\* of our auditor's report dated [date] on the financial statements of the Company for the year ended [date of last audited balance sheet] in the Circular, and the references to our name in the form and context in which they are included.

It should be noted that we have not performed an assurance engagement in accordance with any assurance standard on the financial statements of the Company for any period subsequent to [date of last reported balance sheet]. This consent should not be construed as in any way updating or refreshing the aforementioned auditor's report nor do we accept responsibility for such report beyond that owed to those to whom the report was addressed by us at the date of its issue.

Yours faithfully,

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

\* to delete whichever is not appropriate and to describe the transaction of which an investment circular is issued.