



**October 2009**

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

**INVITATION TO COMMENT ON PRACTICE NOTE 740 AUDITOR'S  
LETTER ON CONTINUING CONNECTED TRANSACTIONS UNDER THE  
HONG KONG LISTING RULES**

***Comments to be received by 31 December 2009***

The Hong Kong Institute of Certified Public Accountants' (Institute) Auditing and Assurance Standards Committee (AASC) is seeking comments on the Exposure Draft (ED) of Practice Note 740 (PN) which has been posted on the Institute's website at: <http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/>

The purpose of the PN is to provide guidance to auditors when they are engaged by a Hong Kong listed issuer to report on continuing connected transactions pursuant to Chapter 14A of the Main Board Listing Rules or Chapter 20 of the GEM Listing Rules issued by The Stock Exchange of Hong Kong Limited (SEHK).

The PN addresses the significant issues that may be encountered by the auditor when undertaking such an engagement pursuant to the PN and summarises the principal matters which should be taken into consideration by the auditor when designing, carrying out, and evaluating the outcome of his procedures.

Once finalized and issued, it should also help to ensure consistency in scope of work done by auditors when reporting on continuing connected transactions disclosed in Hong Kong listed issuers' annual reports.

This PN has been prepared in consultation with the SEHK.

This ED is issued separately from the Consultation Paper on Proposed Changes to the Connected Transaction Rules issued by the Hong Kong Exchanges and Clearing Limited (HKEx) on 2 October 2009. The matters under consultation by HKEx (which primarily relate to revisions to definitions and certain exemptions) are not expected to have a significant impact on the proposed guidance provided in the PN. When the PN is issued in final form, the relevant Listing Rules summarized in Appendix 1 to the PN would be appropriately updated, where necessary.

The AASC invites comments on the ED from any interested party and wishes to hear from both those who agree and those who do not agree with the proposed guidance contained in the ED. Comments should be supported by specific reasoning and should be submitted in written form.



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

Steve Ong  
Director, Standard Setting  
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@hkiipa.org.hk](mailto:commentletters@hkiipa.org.hk)

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

October 2009  
Exposure Draft

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Response Due Date  
31 December 2009

*ED of Practice Note*

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**Practice Note 740 *Auditor's letter on  
Continuing Connected Transactions under  
the Hong Kong Listing Rules***



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

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ED of Practice Note 740 *Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules*

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/>.



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Effective for reporting on  
continuing connected  
transactions disclosed in annual  
reports for periods ending or after  
[date (to be confirmed)]

*Practice Note 740*

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# **Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules**



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

## PRACTICE NOTE 740

### AUDITOR'S LETTER ON CONTINUING CONNECTED TRANSACTIONS UNDER THE HONG KONG LISTING RULES

(Issued [ ] 2010)

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## **PRACTICE NOTE 740**

### **AUDITOR'S LETTER ON CONTINUING CONNECTED TRANSACTIONS UNDER THE HONG KONG LISTING RULES**

*The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the auditor in applying Hong Kong Standards on Auditing (HKSAAs) and Hong Kong Standards on Assurance Engagements (HKSAEs) of general application to particular circumstances and industries.*

*Practice Notes are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in HKSAAs and HKSAEs, even though they may be developed without the full process of consultation and exposure used for HKSAAs and HKSAEs. The auditor should be prepared to explain departures when called upon to do so.*

#### **Introduction**

1. The purpose of this Practice Note is to provide guidance to auditors as to their responsibilities and procedures when an auditor is engaged by a Hong Kong listed issuer to report on continuing connected transactions pursuant to Chapter 14A of the Main Board Listing Rules or Chapter 20 of the GEM Listing Rules issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The term "auditor" is used throughout this Practice Note, not because the auditor is performing an audit function but because engagements to issue a letter under Chapter 14A of the Main Board Listing Rules or Chapter 20 of the GEM Listing Rules on continuing connected transactions is expected to be performed by the same independent auditor who audited the annual financial statements of the entity. This Practice Note primarily addresses the significant issues commonly encountered by the auditor when undertaking the engagement and summarises the principal matters which should be taken into consideration by the auditor when designing, carrying out, and evaluating the outcome of, his procedures.
2. Chapter 14A of the Main Board Listing Rules and Chapter 20 of GEM Listing Rules set out a number of requirements in respect of connected transactions which are intended to ensure that when the listed issuer enters into connected transactions, the interests of shareholders as a whole are taken into account by a listed issuer and to provide certain safeguards against a listed issuer's directors, management and substantial shareholders (or their associates) taking advantage of their positions. Amongst other things, the Listing Rules require certain continuing connected transactions be approved by independent shareholders, reviewed by independent non-executive directors, and be subject to reporting and announcement requirements. In particular, Main Board Listing Rule 14A.38 and GEM Listing Rule 20.38 require that each year, a listed issuer should request its auditors to issue a letter in respect of continuing connected transactions. Main Board Listing Rule 14A.39 / GEM Listing Rule 20.39 requires that the listed issuer's board of directors must state in the annual report whether its auditors have confirmed the matters stated in Main Board Listing Rule 14A.38 / GEM Listing Rule 20.38.
3. It should be borne in mind that the definition of "connected person" in accordance with the Hong Kong Listing Rules is different from the definition of "related party" as set out in Hong Kong Accounting Standard 24 ("HKAS 24") "Related Party Disclosures". However, there are many similarities in the issues associated with related parties and connected persons.
4. Related / connected party relationships and transactions are often a common feature of commerce and business. Related / connected party relationships could also have an effect on an entity's financial and operating policies. An entity may enter into transactions with related / connected parties that any other third party would not and that could have a material effect on the entity's performance and financial position. Related / connected party relationships may also give rise to higher risk of management and substantial shareholders taking advantage of their position and not acting in the interests of minority shareholders.

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5. The objective of an engagement undertaken in accordance with this Practice Note is for the auditor to undertake a limited assurance engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" to enable him to express a conclusion whether, on the basis of the work undertaken, anything has come to the auditor's attention that causes the auditor to believe that the matters in respect of which he is required to report (as more fully explained in this Practice Note) have not been complied with, in all material respects. The auditor makes inquiries, and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the information in respect of the disclosed continuing connected transactions is materially misstated in the listed issuer's annual report.
6. The objective of an engagement under this Practice Note differs significantly from that of an audit conducted in accordance with Hong Kong Standards on Auditing (HKSA's). An engagement under this Practice Note does not provide a basis for expressing an opinion on whether the continuing connected transactions disclosed in the listed issuer's annual report give a true and fair view, or are presented fairly, in all material respects, in accordance with an applicable financial reporting framework or whether the listed issuer has complied with all the applicable listing rules in respect of continuing connected transactions.
7. This Practice Note has been prepared in consultation with the Stock Exchange and is based on the Stock Exchange's Listing Rules as at [30 September 2009]. Relevant definitions are set out in Appendix 1 to this Practice Note.

### **Directors' responsibilities**

8. The directors of a listed issuer are responsible for the identification of all connected transactions, including continuing connected transactions, the disclosures of connected transactions in the listed issuer's annual report, obtaining the independent shareholders' approval for connected transactions where required, and the listed issuer's compliance with the Listing Rules and relevant laws and regulations.
9. The directors should ensure that the listed issuer has appropriate internal controls in place over the identification, recording, authorization and reporting of all connected transactions. This responsibility means that the listed issuer should implement adequate internal controls to ensure that connected parties as well as all transactions with connected parties are appropriately identified in the listed issuer's information system.
10. When the listed issuer engages its auditor to report on continuing connected transactions pursuant to the listing rules, the listed issuer is responsible for ensuring the auditor is granted sufficient access to records of the listed issuer and the connected persons pursuant to the Main Board Listing Rule 14A.39 / GEM Listing Rule 20.39.
11. Under Main Board Listing Rule 14A.40 / GEM Listing Rule 20.40, a listed issuer shall promptly notify the Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive directors and/or the auditor will not be able to confirm the matters set out in Main Board Listing Rule 14A.37 and/or 14A.38 / GEM Listing Rule 20.37 and/or 20.38 respectively. The listed issuer may have to re-comply with Main Board Listing Rule 14A.35(3) and (4) / GEM Listing Rule 20.35(3) and (4) and any other conditions the Stock Exchange considers appropriate.
12. Main Board Listing Rule 14A.38 / GEM Listing Rule 20.38 requires that a copy of the auditor's letter on continuing connected transactions should be provided to the Stock Exchange not less than 10 business days prior to the bulk printing of the listed issuer's annual report. The listed issuer's directors are responsible for providing the auditor's letter to the Stock Exchange.
13. Under Listing Rule 14A.37 / GEM Listing Rule 20.37, the independent non-executive directors ("INEDs") are responsible for reviewing, and confirming in the annual report and accounts, whether the continuing connected transactions have been entered into:

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- a. In the ordinary and usual course of business of the listed issuer;
  - b. on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the listed issuer than terms available to or from, as appropriate, independent third parties; and
  - c. in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the listed issuer as a whole.
14. If the INEDs are unable to issue an unmodified confirmation required by Main Board Listing Rule 14A.37 / GEM Listing Rule 20.37, the listed issuer is required under Listing Rule 14A.40 / GEM Listing Rule 20.40 to promptly notify the Stock Exchange and publish an announcement. In such circumstances, the auditor should discuss with the INEDs and management and consider the implications on his work and letter.

### **Auditor's responsibilities**

15. When reporting on continuing connected transactions pursuant to Chapter 14A of the Main Board Listing Rules or Chapter 20 of the GEM Listing Rules, the auditor plans and performs his work in accordance with this Practice Note and the related engagement terms agreed between the listed issuer and the auditor. The auditor should consider procedures performed during the course of the audit of the listed issuer's financial statements for the same period in respect of related party transactions, and considers the outcome of those procedures to the extent that they are relevant to his engagement to report on continuing connected transactions.
16. When carrying out his work in accordance with this Practice Note, the auditor would normally carry out his work as a limited assurance engagement. The auditor should comply with the HKICPA's Code of Ethics for Professional Accountants and implement quality control procedures. The ethical requirements govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior, and technical standards. The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.
17. The auditor reports on the continuing connected transactions that are disclosed in the annual report and should exercise his professional judgement as to the scope and extent of procedures necessary. Listing Rule 14A.38 / GEM Listing Rule 20.38 contemplates that when reporting on continuing connected transactions the auditor issues a letter addressed to the issuer's board of directors.

### **General considerations**

#### *Completeness of identification of connected parties and transactions*

18. Normally there are inherent limitations and a degree of uncertainty associated with assertions regarding the identification of all connected parties and completeness of transactions with connected parties. The procedures identified in this Practice Note will provide a sufficient appropriate basis for the auditor to issue the form of letter contemplated in this Practice Note in the absence of any circumstance identified by the auditor that:
- a. increases the risk of material misstatement beyond that which would ordinarily be expected; or

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- b. indicates that a material misstatement of disclosed continuing connected transactions has occurred.

Where there is any indication that such circumstances exist, the auditor should perform modified, extended or additional procedures as are appropriate in the circumstances.

19. An engagement performed in accordance with this Practice Note cannot be expected to detect all continuing connected party transactions.
20. The auditor's letter would include a paragraph explaining the inherent limitations of the auditor's work in determining whether the information provided by the directors in respect of continuing connected transactions includes all continuing connected transactions. Instead, the auditor's work covers those continuing connected transactions that have been identified by the directors. In this regard, the auditor would obtain the directors' written representations as to the completeness of the continuing connected transactions identified by the listed issuer.
21. Notwithstanding the inherent limitations typically encountered by auditors as to the completeness and identification of continuing connected transactions and the fact that auditors are not required by this Practice Note to confirm such matters, if an auditor becomes aware of any specific circumstances arousing suspicion that continuing connected transactions have not been identified or have been omitted from disclosure, whether deliberately or otherwise, the auditor assesses the implications and considers appropriate actions that he should take.
22. The auditor should give consideration to the listed issuer's internal controls in place to identify additional connected parties or additional connected party transactions arising during the period, for example, due to acquisitions of new subsidiaries during the period or changes to the counterparties of the continuing connected transactions.
23. Main Board Listing Rule 19A.19 / GEM Listing Rule 25.14 explains that a PRC Governmental Body (defined in Main Board Listing Rule 19A.04 / GEM Listing Rule 25.04) is ordinarily not regarded by the Stock Exchange as a connected party of a PRC issuer (defined in Main Board Listing Rule 19A.04 / GEM Listing Rule 25.04). However, the Stock Exchange may from time to time determine that certain persons or entities should be treated as connected persons of a PRC issuer for the purpose of the connected transaction provisions of Chapter 14A of the Main Board Listing Rules / Chapter 20 of the GEM Listing Rules. Therefore, where the PRC issuer transacts with other PRC state-owned enterprises and the auditor has any concern as to whether the transactions should be regarded as continuing connected transactions, the auditor should confirm with the PRC issuer the extent to which such transactions have been determined by the Stock Exchange to constitute continuing connected transactions. The auditor should also consider obtaining management representations in this regard.

*Nature of the engagement to be performed*

24. Following discussions between the Stock Exchange, the Hong Kong Securities and Futures Commission and the HKICPA, to satisfy the requirements of the Listing Rules, it is considered appropriate for the auditor to conduct a limited assurance engagement on the continuing connected transactions identified by the listed issuer in accordance with this Practice Note. A limited assurance engagement, in contrast to an audit, is not designed to obtain reasonable assurance that the continuing connected transactions disclosed in the listed issuer's annual report are free from material misstatement. A limited assurance engagement consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. When carrying out an engagement under this Practice Note, in addition to making enquiries and performing analytical procedures, the auditor will typically test a sample of transactions.
25. As explained in paragraph 20 of this Practice Note, the auditor's letter on continuing connected transactions is ring-fenced to cover solely those continuing connected transactions that have been identified by management. As also explained in paragraph 21

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of this Practice Note, the auditor remains alert for circumstances that may indicate that some continuing connected transactions may have been omitted from disclosure. For example, the auditor considers the connected parties identified by management in light of those disclosed in the relevant previous announcements. Where there are apparent omissions, the auditor enquires as to the reasons and considers management's response and the implications on the contents of his letter.

26. A limited assurance engagement may bring significant matters affecting the disclosed continuing connected transactions to the auditor's attention, but it does not provide all of the evidence that would be required in an audit.

*Terms of engagement*

27. The auditor and the listed issuer should agree on the terms of engagement.
28. It is in the interests of both the auditor and the listed issuer that the auditor's role in respect of issuing a letter on continuing connected transactions is set out in writing. This may be achieved in a number of ways, for example, by including relevant terms and conditions in the audit engagement letter or by agreeing the terms and conditions in a separate engagement letter that deals specifically with the auditor's reporting on continuing connected transactions.
29. Matters that may be dealt with in the engagement letter include:
- a. the objective of the engagement, namely to report on continuing connected transactions disclosed in the listed issuer's annual report;
  - b. the scope of the engagement;
  - c. the directors' responsibility for ensuring the completeness and accuracy of disclosures of continuing connected transactions in the listed issuer's annual report and for the listed issuer's compliance with the Listing Rules in respect of continuing connected transactions and relevant laws and regulations;
  - d. the directors' responsibility for establishing and maintaining effective internal controls relevant to the identification, recording and reporting of connected parties and connected transactions, including authorization of continuing connected transactions;
  - e. the directors' responsibility for making all books and accounts and related information available to the auditor;
  - f. the directors' agreement to provide written representations to the auditor in respect of continuing connected transactions that the auditor considers to be necessary;
  - g. the auditor's responsibilities including reference that the auditor will conduct a limited assurance engagement in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to this Practice Note;
  - h. the anticipated form and content of the auditor's letter to be issued, including the identity of the addressee of the letter and any restrictions on distribution and disclosure of the letter, as well as any other matters that the auditor believes appropriate to include in the engagement letter; and
  - i. a statement explaining any inherent limitations of the auditor's work (for example, with respect to completeness of continuing connected transactions, as explained in paragraphs 18 - 23 above).

An illustrative engagement letter is set out in Appendix 3 to this Practice Note.

*Extent of testing and sampling*

30. The auditor's understanding of the entity and its environment, including its internal controls, the results of the risk assessments relating to the continuing connected transactions and the auditor's consideration of materiality as it relates to the continuing connected transactions, affects the nature and extent of the inquiries made, as well as the nature and extent of analytical and other procedures.
31. For the purpose of addressing the Listing Rules' requirements, the auditor will typically perform tests of a sample of transactions in addition to making enquiries and applying, where relevant, analytical procedures. The auditor decides which means or combination of means, to be used for the determination of the number of items for testing and the selection of items for testing, based on his assessment of the risk of material misstatement in the context of the nature of the engagement and the matters to be addressed in his letter.
32. The extent of testing and the selection of items for testing should be solely determined by the auditor.

*Materiality*

33. A matter in respect of continuing connected transactions is material if its omission or misstatement could reasonably be expected to influence the decisions of the users of the information disclosed. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful. The assessment of what is material is a matter of professional judgment. Both the amount (quantity) and nature (quality) of misstatements need to be considered.
34. For example, a misstatement in the value of continuing connected transactions may be small in terms of the amount. However, if adding the omitted amount to the amounts disclosed results in a breach of the maximum aggregate annual value (or cap) permitted for the relevant continuing connected transactions, the omission may be material.
35. The auditor should consider the concept of materiality in relation to the continuing connected transactions being reported upon. Reporting on continuing connected transactions provides a smaller base against which to measure materiality compared with the financial statements taken as a whole. Consequently, the auditor's procedures will ordinarily be more extensive than if the same disclosures of continuing connected transactions were to be reviewed in connection with a limited assurance report on the entire financial statements.

*Interaction with the annual audit*

36. During the course of the annual audit in accordance with HKSAs, the auditor is required to perform procedures in respect of related parties and transactions as set out in HKSA 550 "Related Parties". The definition of related party as set out in Hong Kong Accounting Standard 24 "Related Party Disclosures" and the definition of connected person in the listing rules are not the same. Nevertheless, many of the issues encountered when considering related party transactions during the course of the audit are broadly similar to those encountered in respect of continuing connected transactions. However, the respective reporting requirements for a listed issuer and its auditor in respect of continuing connected transactions under Main Board Chapter 14A / GEM Chapter 20 are different to those applicable for related party transactions in accordance with Hong Kong Financial Reporting Standards and the audit thereof under HKSAs.
37. The auditor should consider procedures performed and findings on related party transactions arising from his audit of the listed issuer's financial statements when designing, carrying out and evaluating the outcome of his procedures on the listed issuer's continuing connected transactions.

*Risks of fraud and error*

38. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques as:
- a. Omitting, advancing or delaying recognition of continuing connected transactions that have occurred during the reporting period;
  - b. Concealing, or not disclosing, facts that could affect the identification of connected persons and the amounts of disclosed continuing connected transactions;
  - c. Altering records and terms related to significant and unusual continuing connected transactions.
39. The responsibility for the prevention and detection of fraud rests with both those charged with governance of the listed issuer and with management. It is the responsibility of those charged with governance of the listed issuer to ensure, through oversight of management, that the listed issuer establishes and maintains internal controls relevant to continuing connected transactions to provide reasonable assurance with regard to reliability of the disclosure of continuing connected transactions, effectiveness and efficiency of operations of those internal controls and compliance with applicable laws and regulations.
40. Due to the inherent limitations of an engagement performed in accordance with this Practice Note, there is an unavoidable risk that some material misstatements of continuing connected transactions will not be detected by the auditor, even though the engagement is properly planned and performed in accordance with this Practice Note.
41. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. These may include, for example, failure by management to disclose to the auditor connected party relationships or concealing the true identities of counterparties. Such attempts at concealment may be even more difficult to detect when accompanied by collusion. Collusion may cause the auditor to rely on evidence when it is, in fact, false. The auditor's ability to detect a fraud depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

*Skepticism*

42. The auditor should plan and perform the engagement to issue his letter on continuing connected transactions with an attitude of professional skepticism, recognizing that circumstances may exist that cause the information to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable requirements of the Main Board Listing Rules / GEM Listing Rules. An attitude of professional skepticism means that the auditor makes a critical assessment, with a questioning mind, of the validity of evidence obtained and is alert to evidence that contradicts or brings into question the reliability of documents or representations by management of the listed issuer.

*Written representations*

43. The auditor should ordinarily obtain written representations from the listed issuer's directors that:
- a. they have disclosed to the auditor the identity of the entity's connected parties and all the connected party relationships and transactions of which they are aware;

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- b. the continuing connected transactions disclosed in the listed issuer's annual report are complete and accurate;
  - c. the continuing connected transactions have been entered into in compliance with the applicable listing rules requirements;
  - d. the continuing connected transactions have received the approval of the listed issuer's board of directors;
  - e. the continuing connected transactions are in accordance with the pricing policies of the listed issuer where the transactions involve provision of goods or services by the listed issuer;
  - f. the relevant agreements governing the continuing connected transactions are in place and the continuing connected transactions have been entered into in accordance with the relevant agreements. No side agreement has been entered into in respect of any transaction, or if there are any side agreements, they have been made available to the auditor;
  - g. the continuing connected transactions have not exceeded the maximum aggregate annual value disclosed in previous announcements; and
  - h. the independent non-executive directors have confirmed that the transactions have complied with the requirements of the Main Board Listing Rule 14A.37 / GEM Listing Rule 20.37. Where the INEDs have not issued their confirmation prior to the auditor issuing his letter, the auditor should make enquiries as set out in paragraph 46 below.
44. The auditor may also request other representations where appropriate.
45. An example management representation letter in respect of reporting on continuing connected transactions is illustrated in Appendix 4 to this Practice Note.
46. Pursuant to the Main Board Listing Rule 14A.38 / GEM Listing Rule 20.38, a copy of the auditor's letter on continuing connected transactions should be provided by the listed issuer to the Stock Exchange not less than 10 business days prior to the bulk printing of the listed issuer's annual report. However, the INEDs' confirmation under the Main Board Listing Rule 14A.37 / GEM Listing Rule 20.37 is not subject to the same reporting deadline. Therefore, situations can arise where the auditor may be requested to issue his letter on continuing connected transactions before the INEDs have completed their review under the Main Board Listing Rule 14A.37 / GEM Listing Rule 20.37. In instances where the INEDs' confirmation has not been issued before the auditor's letter on continuing connected transactions is issued, the auditor makes enquiries of the INEDs as to whether there are any matters in respect of those representations set out in paragraph 43h of this Practice Note identified by the INEDs during the course of their review of continuing connected transactions and considers the implications. In addition, management should be requested to inform the auditor of the issues, if any, identified by the INEDs upon completion of their review and issue of their confirmation so that the auditor may consider the implications of such issues on his letter.

*Communication with those charged with governance*

47. In light of the INEDs' responsibility for reviewing the continuing connected transactions under the Main Board Listing Rule 14A.37 / GEM Listing Rule 20.37, the auditor should consider discussing with the listed issuer's INEDs the outcome from the INEDs' review of continuing connected transactions. Whilst the scope of the INEDs' review of continuing connected transactions is not the same as the auditor's scope of work, any issues identified by the INEDs may impact on the auditor's risk assessments and procedures. Similarly, any issues noted by the auditor during the course of his work may be of relevance to the INEDs, although the auditor's engagement to issue a letter on continuing connected transactions under this Practice Note is not intended to provide any basis for the INEDs' review and

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confirmation under Main Board Listing Rule 14A.37 / GEM Listing Rule 20.37. Where the auditor is requested to provide assistance to the INEDs in relation to the INEDs' obligations under Main Board Listing Rule 14A.37 / GEM Listing Rule 20.37, such assistance constitutes a separate engagement.

48. The auditor should also consider discussing with the listed issuer's internal auditor, Audit Committee and any other committee that is responsible for managing and reviewing connected transactions details of significant matters arising during the engagement performed in accordance with this Practice Note.
49. Communicating significant matters arising during an engagement performed in accordance with this Practice Note helps the auditor to establish a common understanding with those charged with governance of the nature and resolution of those matters.
50. Where appropriate, the auditor may also wish to draw the INEDs' and Audit Committee's attention to the nature of his engagement, the inherent limitations of his work regarding completeness of continuing connected transactions in addition to any other significant matters.
51. The auditor is not required, when carrying out an engagement pursuant to this Practice Note, to design procedures for the specific purpose of identifying matters of governance interest. However, during the course of the engagement, the auditor may note weaknesses or breakdowns in internal controls or other matters which he considers to be material and which he considers should be brought to the attention of those charged with governance. These may include, for example, fraud or material errors. The auditor should also consider their impact on the engagement. Where appropriate, the auditor may provide recommendations for improvement. Examples of significant matters in respect of continuing connected transactions include:
  - a. non-disclosure (whether intentional or not) by management to the auditor of connected parties or significant connected party transactions, which may alert those charged with governance to significant connected party relationships and transactions of which they may not have been previously aware;
  - b. the identification of significant connected party transactions that have not been appropriately authorized and approved, which may give rise to suspected fraud;
  - c. non-compliance with the applicable listing rules requirements regarding connected transactions of which the auditor has become aware.

### **Specific considerations**

52. Under Main Board Listing Rule 14A.38 / GEM Listing Rule 20.38, when the listed issuer engages the auditor to report on continuing connected transactions, the auditor is requested to issue a letter to the listed issuer's board of directors (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the listed issuer's annual report) reporting as to whether the continuing connected transactions:
  - a. have received the approval of the listed issuer's board of directors;
  - b. are in accordance with the pricing policies of the listed issuer if the transactions involve provision of goods or services by the listed issuer;
  - c. have been entered into in accordance with the relevant agreement governing the transactions; and
  - d. have not exceeded the caps disclosed in previous announcements.

Some of the foregoing provisions may be interpreted widely. The auditor's normal response and approach when issuing his letter on these matters are set out below.

*Reporting on approval by directors*

53. Main Board Listing Rule 14A.38(1) / GEM Listing Rule 20.38(1) requires that the auditor's letter should report on whether the continuing connected transactions have received the approval of the listed issuer's board of directors.
54. The auditor should obtain appropriate and sufficient evidence that the continuing connected transactions have been formally approved by the issuer's board of directors, for example, by inspecting minutes of meetings of the board of directors, or by obtaining written representations issued on behalf of the board or other suitable evidence of approval.

*Reporting as to whether transactions complied with the listed issuer's pricing policies*

55. Where the listed issuer provides goods or services to a connected person, Main Board Listing Rule 14A.38(2) / GEM Listing Rule 20.38(2) requires that the auditor's letter should report on whether such continuing connected transactions are in accordance with the pricing policies of the listed issuer. This reporting requirement does not apply in respect of goods/services received by the listed issuer from connected persons.
56. The auditor should make enquiries of management as to whether the continuing connected transactions have complied with the listed issuer's pricing policies. Where management confirms that some or all transactions have not complied with the issuer's pricing policies, the auditor should consider the impact on his work and letter. The auditor also considers whether the matter should be discussed with those charged with governance and whether the listed issuer should discuss the non-compliance with the Stock Exchange.
57. The auditor's additional procedures when considering whether the relevant continuing connected transactions are in accordance with the listed issuer's pricing policies may vary according to the pricing terms of the relevant agreement. This will normally include testing a sample of transactions.
58. Where an agreement contains clear and quantitative pricing terms specifying a standard unit price or standard range of unit prices for the continuing connected transactions or makes reference to a specific price list maintained by the listed issuer, the auditor may compare the price of a sample of transactions against the quantitative pricing terms stated in the agreement or the specific price list to evaluate whether the actual price charged was in agreement with the pricing term stated in the relevant document.
59. However, difficulties may arise where the relevant agreement contains a pricing term which is qualitative or judgmental (for example, if any reference to the price to be charged indicates reference to "market value", "reasonableness" or "arm's length"). There may be insufficient objective criteria for the auditor to evaluate compliance with a qualitative or judgmental pricing term particularly where the relevant goods or services are not of a standard or uniform nature.
60. Although information may be available to indicate how the price of a continuing connected transaction compares to that of a similar transaction with an independent third party, there are ordinarily practical difficulties that limit the auditor's ability to obtain information that all aspects of a connected party transaction are equivalent to those undertaken by the listed issuer with an independent third party.
61. Where the pricing terms are not clearly set out in the agreements governing the selected continuing connected transactions, the auditor should request management to provide details of comparable transactions undertaken with non-connected persons and seek to establish whether the price charged is consistent with the price charged for comparable transactions as identified by management. The auditor then reports based on a comparison of the prices charged in respect of the relevant continuing connected transactions with such comparable transactions.

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62. Where the listed issuer does not have any comparable transactions in the foregoing situation, the auditor may consider making enquiries of management to understand the factors that have been considered by management in developing and setting the prices, such as the size of purchase, credit term periods and settlement methods and to consider whether the approach adopted for setting the prices for the selected continuing connected transactions is consistent with the listed issuer's pricing policies or the approach adopted for other transactions. Nevertheless, it may not be practicable for the auditor to evaluate a combination of factors and therefore, the auditor may not be able to reach any conclusion on this aspect. If the auditor is unable to reach a conclusion he should consider the impact on his letter and should discuss with the issuer's management and consider the guidance in paragraph 83 below.
63. Under Main Board Listing Rule 14A.37 / GEM Listing Rule 20.37, it is the INEDs' responsibility (and not that of the auditor) to confirm that the continuing connected transactions were entered into on normal commercial terms, or on terms no less favourable to the listed issuer than terms available to or from independent third parties. Whilst the auditor is not required to conclude or comment on whether or not the continuing connected transactions have been entered into on normal commercial terms or on no less favourable terms than those with independent third parties, the auditor should discuss with the INEDs to consider the INEDs' work and any issues that the INEDs identified during their annual review of continuing connected transactions.

*Reporting as to whether transactions were entered into in accordance with the relevant agreement*

64. Main Board Listing Rule 14A.38(3) / GEM Listing Rule 20.38(3) requires an auditor's letter to report on whether the continuing connected transactions have been entered into in accordance with the relevant agreement governing the transactions.
65. Main Board Listing Rule 14A.35 / GEM Listing Rule 20.35, requires that when a listed issuer enters into a continuing connected transaction not falling under the exemption in Main Board Listing Rule 14A.33 / GEM Listing Rule 20.33, it must, in respect of each connected transaction, enter into a written agreement(s) with the connected person. The agreement must set out the basis of the calculation of the payments to be made and the period must be fixed and reflect normal commercial terms and, except in special circumstances, must not exceed three years.
66. Depending on the nature of the connected transaction, the relevant agreement governing the transaction may include many terms and conditions to be fulfilled by the parties to the agreement.
67. Some of these, in turn, may need to be fulfilled at different stages as specified in the agreement. It may be difficult for the auditor to assess whether all obligations and terms in the related agreement have been fulfilled. Furthermore, in the case of compliance with technical specifications set out in the relevant agreement that are applicable to a product or service, the auditor may not have sufficient expertise to evaluate whether the technical specifications have been adhered to or, if not, the significance of any non-compliance.
68. The auditor will ordinarily focus his work on confirming with management whether there is an agreement in place governing the continuing connected transactions and whether the actual price charged for the transaction was in line with the pricing terms set out in the agreement. Where appropriate, the auditor may consider enquiring of personnel other than those responsible for financial and accounting matters in respect of any non-compliance with technical specifications set out in the relevant agreement, for example, with management responsible for production or engineering staff in the case of technical specifications.
69. The auditor should consider inspecting a sample of transactions to establish whether there is an agreement in place with the connected person with a fixed period and whether the acceptance of delivery of goods or services was supported by documentary evidence. When doing so, the auditor's objective is to obtain prima facie evidence in support of management's representation, but not for the purpose of confirming or reporting on

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compliance with all contractual matters. In respect of the transactions tested, the principal objective is to consider whether the transactions tested were covered by the agreement and that the relevant good/service envisaged by the agreement was exchanged.

70. For example, if the continuing connected transaction is to sell stainless steel components to the connected party, the auditor may not generally have the level of engineering or technical expertise to identify whether the particular product provided was fully compliant with technical requirements in the relevant agreement if the invoices indicated that "steel components" (rather than stainless steel components) were delivered.
71. For the purpose of an engagement under this Practice Note, it is generally regarded as a reasonable assumption that the right goods/services were delivered if the delivery is supported by a signed delivery note or other written acknowledgement of receipt of the goods/services being in accordance with the relevant agreement. Where such documentary evidence is not available, the auditor considers whether this may indicate non-compliance with the relevant agreement and where he considers necessary, discusses further with management and assesses the implications on the matters to be set out in his letter. However, the absence of documentary evidence does not necessarily mean that the auditor concludes that there has been any non-compliance.
72. In addition, for samples tested, the auditor compares the price of a sample of continuing connected transactions against the quantitative pricing term stated in the agreement to evaluate whether the actual price charged was in agreement with the pricing term stated in the agreement.
73. The auditor should also confirm with management that no side agreements have been entered into in respect of the continuing connected transactions which have not been made available to the auditor.

*Reporting on whether transactions are within the maximum aggregate annual amount ("cap")*

74. Main Board Listing Rule 14A.38(4) / GEM Listing Rule 20.38(4) requires the auditor's letter to report on whether the continuing connected transactions have not exceeded the cap disclosed in previous announcements made by the listed issuer.
75. The auditor should make enquiries of management to confirm that the continuing connected transactions have not exceeded the relevant cap(s).
76. In addition, the auditor should compare the aggregate amounts of the continuing connected transactions to the respective cap. When doing so, the auditor should confirm with management the relevant previous announcements to confirm the amount of the cap.
77. The auditor should compare the different types of continuing connected transactions disclosed in the relevant previous announcements to those disclosed in the annual report. Where there are apparent omissions from disclosure, the auditor should make enquiries of management and satisfy himself as to the reasons for any apparent omissions (for example, it could be the case that the listed issuer did not subsequently enter into transactions that were originally contemplated).

## **Reporting**

*General aspects*

78. The auditor should evaluate the results of his procedures in order to form the conclusions in his letter.
79. The auditor's letter is addressed to the listed issuer's board of directors and includes conclusions on the basis of the work undertaken in accordance with this Practice Note.

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80. The auditor should consider the impact of any matters identified on his work and letter. For example, the auditor should consider whether any matters would preclude the auditor from issuing his letter or whether he may need to modify or qualify any conclusions.
81. The auditor should also consider whether the matter(s) should be discussed with management and / or those charged with governance, and whether the listed issuer should discuss such with the Stock Exchange. For example, the following matters should be considered:
- where the actual price charged of some or all continuing connected transactions was not in agreement with the pricing terms stated in the relevant agreement or the specific price list of the listed issuer;
  - where the actual price charged of some or all continuing connected transactions was not consistent with the price charged for comparable transactions as identified by management; or
  - where the approach adopted by the listed issuer for setting prices for some or all continuing connected transactions was inconsistent with the approach adopted for other transactions.
82. An example unmodified auditor's letter on continuing connected transactions is set out in Appendix 2 to this Practice Note. However circumstances may arise where the auditor believes that a modified or qualified conclusion is appropriate. This Practice Note does not preclude the auditor from issuing a modified or qualified conclusion.
83. Under the Main Board Listing Rule 14A.40 / GEM Listing Rule 20.40, a listed issuer is required to promptly notify the Stock Exchange and publish an announcement if it knows or has reason to believe that the INEDs and/or the auditor will not be able to confirm the matters set out in the Main Board Listing Rules 14A.37 and/or 14A.38 or GEM Listing Rules 20.37 and/or 20.38 respectively. In this respect, reference to the auditor not being able to confirm the matters set out in the Main Board Listing Rule 14A.38 / GEM Listing Rule 20.38 should be evaluated as to whether the auditor would not be able to issue an unmodified letter as envisaged in this Practice Note. The responsibility for determining whether any announcement is required rests solely with the listed issuer's directors.
84. The auditor should note that the listed issuer is required to provide a copy of the auditor's letter in respect of continuing connected transactions to the Stock Exchange pursuant to the listing rules. In the auditor's letter, the auditor should give his express consent to the letter being supplied to the Stock Exchange.
85. Once the auditor's letter is issued, the auditor has no further direct responsibility to update or actively seek information on events occurring subsequent to the date of the letter. The listed issuer should be requested to inform the auditor of any event occurring subsequent to the date of the auditor's letter that may impact on the letter, prior to the issuance of the listed issuer's annual report.

*References to auditor's letter in the annual report*

86. The Main Board Listing Rule 14A.39 / GEM Listing Rule 20.39 requires that the listed issuer's board of directors must state in the annual report whether its auditors have confirmed the matters stated in the Main Board Listing Rule 14A.38 / GEM Listing Rule 20.38. In this respect, given the nature of the engagement and for better clarity as to the work performed in accordance with this Practice Note, generally a suitable disclosure in this respect would be for the listed issuer to include appropriate references in the annual report to the work performed by the auditor. An illustrative example of such a disclosure in instances where the auditor's letter issued does not contain any modification or qualification is set out below. In instances where the auditor's letter is modified or qualified, the auditor should advise the listed issuer's directors to discuss with the Stock Exchange the extent of impact of the modification or qualification on the disclosure to be made.

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*“The Company’s auditors were engaged to report on the Group’s continuing connected transactions in accordance with Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group and which has been provided by the Company to the Stock Exchange in accordance with Listing Rule 14A.38.”*

87. The Main Board Listing Rules 14A.45 and 14A.46 / GEM Listing Rules 20.45 and 20.46 require the listed issuer to disclose the particulars of the continuing connected transactions in its next published annual report and accounts and its subsequent published annual report and accounts for the financial years during which the listed issuer undertakes the continuing connected transactions under the written agreement entered into pursuant to the Main Board Listing Rule 14A.35(1) / GEM Listing Rule 20.35(1). The auditor should consider whether the disclosures in the annual report are consistent with the information and findings in respect of the continuing connected transactions on which the auditor reports.
88. Whilst any disclosures in the annual report are solely the responsibility of the listed issuer’s directors, where the auditor considers that any inappropriate references have been made in respect of his work or conclusions or any incorrect disclosures have been made in respect of the continuing connected transactions, he should discuss with management and if he feels it necessary, with those charged with governance. The auditor’s response will depend on the nature of any issue and his view on the extent to which he considers that any reference to him or his work are inappropriate.

### **Documentation**

89. The auditor should prepare documentation that is sufficient and appropriate to provide a basis for the auditor’s conclusions and to provide evidence that the engagement was performed in accordance with this Practice Note. The documentation enables an experienced auditor having no previous connection with the engagement to understand the nature, timing and extent of the inquiries made, and analytical and other procedures applied, information obtained, and any significant matters considered during the performance of the engagement, including the disposition of such matters.

### **Effective date**

90. This Practice Note is effective for reporting on continuing connected transactions disclosed in annual reports for periods ending on or after [date (to be confirmed)]. Earlier adoption of the Practice Note is permissible.

## Appendix 1

### Summary of relevant Main Board Listing Rules and GEM Listing Rules

Below is a summary of Main Board Listing Rules and GEM Listing Rules that we have referred to in the body of this Practice Note and that are effective at the issuance of this Practice Note. This summary is broadly replicated from the Main Board Listing Rules. Although GEM Listing Rules are broadly aligned to Main Board Listing Rules, there may be slight differences between them which should be clear from the summary below.

In all cases, auditors should refer to Chapter 1, 14A and 19 of Main Board Listing Rules / Chapter 1, 20 and 25 of GEM Listing Rules for the original rules in respect of connected transactions, and which The Stock Exchange of Hong Kong Limited may update from time to time.

Main Board Listing Rule / GEM Listing Rule	
1.01 / 1.01	<p>Throughout this book, the following terms, save where the context otherwise requires, have the following meanings:</p> <p>.....</p> <p><b>“connected person”</b> (a) in relation to a company other than a PRC issuer, and other than any subsidiaries of a PRC issuer, means a director, chief executive or substantial shareholder [GEM Listing Rule 1.01 also refers to management shareholder as defined in GEM Listing Rules] of such company or any of its subsidiaries or an associate of any of them; and</p> <p>(b) in relation to a PRC issuer means a promoter, director, supervisor, chief executive or substantial shareholder [GEM Listing Rule 1.01 also refers to management shareholder as defined in GEM Listing Rules] of the PRC issuer or any of its subsidiaries or an associate of any of them</p> <p>[GEM Listing Rule 1.01 refers to two terms <b>“person connected”</b> and <b>“connected person”</b> both of which have the same definition in GEM Listing Rules]</p> <p>Main Board Listing Rules      <i>Note: This definition is modified in the case of Chapter 14A only by the provisions of [Main Board Listing Rules 14A.11 and 14A.12].</i></p> <p>GEM Listing Rules      <i>Note: This definition is modified for the purposes of Chapter 20 by virtue of the provisions of [GEM Listing Rules 20.11 and 20.12]</i></p> <p>.....</p>

#### Definition of connected person

- 14A.11 / 20.11 [Main Board Listing Rule 1.01 / GEM Listing Rule 1.01] contains a general definition of “connected person”. In this Chapter, the definition of “connected person” includes:
- (1) a director, chief executive or substantial shareholder [GEM Listing Rule 20.11 also refers to management shareholder as defined in GEM Listing Rules] of the listed issuer;

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- (2) any person who was a director of the listed issuer within the preceding 12 months;
- (3) a promoter or supervisor of a PRC issuer;
- (4) any associate of a person referred to in [Main Board Listing Rules 14A.11(1), (2) or (3) / GEM Listing Rules 20.11(1), (2) or (3)]. The definitions of “associate” (in the context of non-PRC issuers and PRC issuers) are contained in [Main Board Listing Rules 1.01 and 19A.04 / GEM Listing Rules 1.01 and 25.04], respectively. In this Chapter, an “associate” of a person referred to in [Main Board Listing Rules 14A.11(1), (2) or (3) / GEM Listing Rules 20.11(1), (2) or (3)] includes the following additional persons:
- (a) any person or entity with whom a person referred to in [Main Board Listing Rules 14A.11(1), (2) or (3) / GEM Listing Rules 20.11(1), (2) or (3)] has entered, or proposes to enter, into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, with respect to the transaction which is such that, in the opinion of the Exchange, that person or entity should be considered a connected person;
- (b) any person cohabiting as a spouse with, and any child, step-child, parent, stepparent, brother, sister, step-brother and step-sister of, a person referred to in [Main Board Listing Rules 14A.11(1), (2) or (3) / GEM Listing Rules 20.11(1), (2) or (3)]; and
- (c) a father-in-law, mother-in-law, son-in-law, daughter-in-law, grandparent, grandchild, uncle, aunt, cousin, brother-in-law, sister-in-law, nephew and niece of a person referred to in [Main Board Listing Rules 14A.11(1), (2) or (3) / GEM Listing Rules 20.11(1), (2) or (3)] whose association with the person referred to in [Main Board Listing Rules 14A.11(1), (2) or (3) / GEM Listing Rules 20.11(1), (2) or (3)] is such that, in the opinion of the Exchange, the proposed transaction should be subject to the requirements of this Chapter. Listed issuers must notify the Exchange of any proposed transaction with these parties unless the transaction is exempt under [Main Board Listing Rules 14A.31 or 14A.33 / GEM Listing Rules 20.31 or 20.33]. Listed issuers must also provide information to the Exchange to demonstrate whether or not these parties should be regarded as associates of the person referred to in [Main Board Listing Rules 14A.11(1), (2) or (3) / GEM Listing Rules 20.11(1), (2) or (3)];
- Notes: 1. A company which is an “associate” of a person referred to in [Main Board Listing Rules 14A.11(1), (2) or (3) / GEM Listing Rules 20.11(1), (2) or (3)] only because that person has an indirect interest in the company through its shareholding in the listed issuer is not a connected person.*
- 2. A non wholly-owned subsidiary will not be regarded as an associate of a substantial shareholder of that non wholly-owned subsidiary if such substantial shareholder is a connected person only by virtue of being a director of the non wholly-owned subsidiary and/or is a substantial shareholder in the non wholly-owned subsidiary concerned.*
- (5) any non wholly-owned subsidiary of the listed issuer where any connected person(s) of the listed issuer (other than at the level of its subsidiaries) as defined under [Main Board Listing Rules 14A.11(1) to (4) / GEM Listing Rules 20.11(1) to (4)] is/are (individually or together) entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such non wholly-owned subsidiary; and

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*Notes: 1 It follows that a non wholly-owned subsidiary is not a connected person where:*

*(a) no connected person(s) of the listed issuer (other than at the level of its subsidiaries) as defined under [Main Board Listing Rules 14A.11(1) to (4) / GEM Listing Rules 20.11(1) to (4)] is/are (individually or together) entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such non wholly-owned subsidiary; and*

*(b) the non wholly-owned subsidiary is not an associate of a person referred to in [Main Board Listing Rules 14A.11(1), (2) or (3) / GEM Listing Rules 20.11(1), (2) or (3)].*

*2 An interest of a connected person of the listed issuer (other than at the level of its subsidiaries) in the subsidiary which is held through the listed issuer is to be excluded from the 10% referred to in this rule.*

(6) any subsidiary of a non wholly-owned subsidiary referred to in [Main Board Listing Rule 14A.11(5) / GEM Listing Rule 20.11(5)].

14A.12 / 20.12 The definition of "connected person" in [Main Board Listing Rule 14A.11 / GEM Listing Rule 20.11] does not include any wholly-owned subsidiaries of the company whose securities are listed on the Exchange, whether directly or indirectly held.

#### **Definition of connected transaction**

14A.13 / 20.13 A connected transaction is:

(1) (a) any transaction between a listed issuer and a connected person; or

##### *Acquisition or disposal of interest in a company*

(b) (i) any transaction between a listed issuer and a person who is not a connected person and the transaction involves the listed issuer acquiring or disposing of an interest in a company where a substantial shareholder [GEM Listing Rule 20.13 also refers to management shareholder as defined in GEM Listing Rules] of that company is, or is proposed to be, a controller or is (or will become as a result of the transaction) an associate of a controller. The Exchange may aggregate the interests of any person and his associates (as defined in [Main Board Listing Rule 14A.11(4) / GEM Listing Rule 20.11(4)]) in determining whether together they are a "substantial shareholder" of any company. Where assets (as opposed to businesses) account for 90% or more of such a company's net assets or total assets, the Exchange will treat the acquisition or disposal of such assets as a connected transaction and an acquisition or disposal of an interest in that company; or

*Notes: 1 A listed issuer itself will not be considered an "associate" of a controller when the listed issuer is acquiring or disposing of an interest in a company of which it is already a substantial shareholder.*

*2 A controller whose only interest in a company is through its interest in the listed issuer will not be taken to be a "substantial shareholder" of that company.*

3 *This rule does not apply where all the following conditions are met:*

- (i) the listed issuer acquires an interest in a company;*
- (ii) the substantial shareholder of the company being acquired is a director, chief executive or controlling shareholder of the company being acquired (or an associate of such director, chief executive or controlling shareholder) immediately prior to the acquisition;*
- (iii) it is proposed that the substantial shareholder will remain a director, chief executive or controlling shareholder of the company being acquired (or an associate of such director, chief executive or controlling shareholder) following the acquisition; and*
- (iv) following the acquisition, the only reason why he is still a controller is that he remains a director, chief executive or controlling shareholder of the company being acquired (or an associate of such director, chief executive or controlling shareholder), as the case may be. Where he remains a controlling shareholder, there must not be any increase in his interest in such company as a result of the acquisition.*

(ii) any transaction between a listed issuer and a person who is not a connected person and the transaction involves the listed issuer acquiring an interest in a company (or an option to acquire such interest) of which a controller (or an associate of a controller) is, or will become, a shareholder where the interest being acquired is:

- (A) of a fixed income nature;
- (B) shares to be acquired on less favourable terms than those granted to the controller or its associate; or
- (C) shares which are of a different class from those held by, or to be granted to, the controller or its associate.

*Note: This rule does not apply where the acquisition is pursuant to the terms of a subscription of shares in the company by the listed issuer and the controller (or its associate) and the subscription upon such terms has previously been approved by shareholders in accordance with the requirements of this Chapter.*

*Subscription on favourable terms*

(iii) any transaction between a listed issuer and a person who is not a connected person and the transaction involves a controller (or an associate of a controller) subscribing on specially favourable terms shares in a company in which the listed issuer is a shareholder; or

*Note: This rule does not apply where the subscription is pursuant to the terms of a subscription of shares in the company by the listed issuer and the controller (or its associate) and the subscription upon such terms has previously been approved by shareholders in accordance with the requirements of this Chapter.*

*Subscription of different class of shares*

- (iv) any transaction between a listed issuer and a person who is not a connected person and the transaction involves a controller (or an associate of a controller) subscribing shares in a company in which the listed issuer is a shareholder but which are of a different class from those held by the listed issuer.

*Note: This rule does not apply where the subscription is pursuant to the terms of a subscription of shares in the company by the listed issuer and the controller (or its associate) and the subscription upon such terms has previously been approved by shareholders in accordance with the requirements of this Chapter.*

*Financial assistance*

- (2) the provision of financial assistance:

- (a) by a listed issuer to:

- (i) a connected person; or
- (ii) a company in which both the listed issuer and a connected person are shareholders and where any connected person(s) of the listed issuer (other than at the level of its subsidiaries) as defined under [Main Board Listing Rules 14A.11(1) to (4) / GEM Listing Rules 20.11(1) to (4)] is/are (individually or together) entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such company; or

*Note: An interest of a connected person of the listed issuer (other than at the level of its subsidiaries) in the company which is held through the listed issuer is to be excluded from the 10% referred to in this rule.*

- (b) to a listed issuer by;

- (i) a connected person; or
- (ii) a company in which both the listed issuer and a connected person are shareholders and where any connected person(s) of the listed issuer (other than at the level of its subsidiaries) as defined under [Main Board Listing Rules 14A.11(1) to (4) / GEM Listing Rules 20.11(1) to (4)] is/are (individually or together) entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of such company.

*Note: An interest of a connected person of the listed issuer (other than at the level of its subsidiaries) in the company which is held through the listed issuer is to be excluded from the 10% referred to in this rule.*

- (3) a listed issuer granting an indemnity or guarantee or providing financial assistance to and/or for the benefit of a connected person or any company falling under [Main Board Listing Rule 14A.13(2)(a)(ii) / GEM Listing Rule 20.13(2)(a)(ii)];
- (4) the granting of security over the assets of a listed issuer in respect of any financial assistance made to the listed issuer by a connected person or any company falling under [Main Board Listing Rule 14A.13(2)(b)(ii) / GEM Listing Rule 20.13(2)(b)(ii)].

Financial assistance transactions are governed by [Main Board Listing Rules 14A.63 to 14A.66 / GEM Listing Rules 20.63 to 20.66];

*Options*

- (5) the writing, acceptance, transfer, exercise or non-exercise of an option (as defined in [Main Board Listing Rule 14.72 / GEM Listing Rule 19.72]) involving a listed issuer and a connected person. Options are governed by [Main Board Listing Rules 14A.67 to 14A.71 / GEM Listing Rules 20.67 to 20.71]; and

*Joint ventures*

- (6) the entering into of any arrangement or agreement involving the formation of a joint venture entity in any form, such as a partnership or a company, or any other form of joint arrangement by a listed issuer and a connected person (see [Main Board Listing Rule 14A.10(13)(f) / GEM Listing Rule 20.10(13)(f)]). Qualified Property Acquisition undertaken on a joint venture basis with a Qualified Connected Person is governed by [Main Board Listing Rules 14A.72 to 14A.79 / GEM Listing Rules 20.72 to 20.79]. In this case, the size of a listed issuer's financial commitment will be calculated in the manner set out in [Main Board Listing Rule 14.15(2) / GEM Listing Rule 19.15(2)].

**Definition of continuing connected transaction**

14A.14 / 20.14 Continuing connected transactions are connected transactions involving the provision of goods or services or financial assistance, which are carried out on a continuing or recurring business and are expected to extend over a period of time. They are usually transactions in the ordinary and usual course of business of the issuer.

14A.15 / 20.15 Continuing connected transactions are governed by [Main Board Listing Rules 14A.33 to 14A.41 / GEM Listing Rules 20.33 to 20.41].

**Continuing connected transactions  
exempt from the reporting, announcement and  
independent shareholders' approval requirements**

14A.33 / 20.33 The following continuing connected transactions will be exempt from the reporting, announcement and independent shareholders' approval requirements of this Chapter:

*Consumer goods or consumer services*

- (1) the provision of consumer goods or consumer services as set out in [Main Board Listing Rule 14A.31(7) / GEM Listing Rule 20.31(7)];

*Sharing of administrative services*

- (2) the sharing of administrative services as set out in [Main Board Listing Rule 14A.31(8) / GEM Listing Rule 20.31(8)]; and

*De minimis transactions*

- (3) a continuing connected transaction on normal commercial terms where:
- (a) each of the percentage ratios (other than the profits ratio) is on an annual basis less than 0.1%; or
  - (b) each of the percentage ratios (other than the profits ratio) is on an annual basis equal to or more than 0.1% but less than 2.5% and the annual consideration is less than HK\$1,000,000.

**Non-exempt continuing connected transactions**

14A.35 / 20.35 When an issuer enters into a continuing connected transaction not falling under [Main Board Listing Rule 14A.33 / GEM Listing Rule 20.33], it must:

- (1) in respect of each connected transaction, enter into written agreement(s) with the connected person. The agreement must set out the basis of the calculation of the payments to be made. The period for the agreement must be fixed and reflect normal commercial terms and, except in special circumstances, must not exceed 3 years. Special circumstances are limited to cases where the nature of the transaction requires the contract to be of a duration longer than 3 years. In such cases, the independent financial adviser will need to explain why a longer period for the agreement is required and to confirm that it is normal business practice for contracts of this type to be of such duration;

*Note: Examples of bases of calculation of the payments to be made include the sharing of costs, price per unit for on-going purchases, annual rental for a lease, and percentage of total construction cost for a management fee.*

- (2) in respect of each connected transaction, set a maximum aggregate annual value ("cap"), the basis of which must be disclosed. This annual cap must be expressed in terms of monetary value rather than a percentage of the issuer's annual revenue as derived from its latest published audited accounts or, where consolidated accounts have been prepared, its latest published audited consolidated accounts. The cap must be determined by reference to previous transactions and figures which are readily ascertainable from published information of the issuer. If there are no previous transactions, the cap must be made based on reasonable assumptions, details of which must be disclosed;

*Note: Reference to annual revenue and other bases may help to determine the monetary value of the cap.*

- (3) comply with the reporting and announcement requirements described in [Main Board Listing Rules 14A.45 to 14A.47 / GEM Listing Rules 20.45 to 20.47]; and
- (4) comply with the independent shareholders' approval requirements described in [Main Board Listing Rule 14A.48 / GEM Listing Rule 20.48] for transactions not falling under [Main Board Listing Rule 14A.34 / GEM Listing Rule 20.34].

**Annual review of continuing connected transactions**

14A.37 / 20.37 Each year the independent non-executive directors of the listed issuer must review the continuing connected transactions and confirm in the annual report and accounts that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the listed issuer;

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- (2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the listed issuer than terms available to or from (as appropriate) independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the listed issuer as a whole.

14A.38 / 20.38 Each year the auditors must provide a letter to the listed issuer's board of directors (with a copy provided to the Exchange at least 10 business days prior to the bulk printing of the listed issuer's annual report), confirming that the continuing connected transactions:

- (1) have received the approval of the listed issuer's board of directors;
- (2) are in accordance with the pricing policies of the listed issuer if the transactions involve provision of goods or services by the listed issuer;
- (3) have been entered into in accordance with the relevant agreement governing the transactions; and
- (4) have not exceeded the cap disclosed in previous announcement(s).

14A.39 / 20.39 The listed issuer shall allow, and shall procure that the counterparty to the continuing connected transactions shall allow, the auditors sufficient access to their records for the purpose of reporting on the transactions as set out in this rule. The listed issuer's board of directors must state in the annual report whether its auditors have confirmed the matters stated in [Main Board Listing Rule 14A.38 / GEM Listing Rule 20.38].

Main Board Listing Rule 14A.40 A listed issuer shall promptly notify the Exchange and publish an announcement in accordance with [Main Board Listing Rule 2.07C] if it knows or has reason to believe that the independent non-executive directors and/or the auditors will not be able to confirm the matters set out in [Main Board Listing Rules 14A.37 and/or 14A.38] respectively. The listed issuer may have to re-comply with [Main Board Listing Rules 14A.35(3) and (4)] and any other conditions the Exchange considers appropriate.

GEM Listing Rule 20.40 A listed issuer shall promptly notify the Exchange and publish an announcement if it knows or has reason to believe that the independent non-executive directors and/or the auditors will not be able to confirm the matters set out in [GEM Listing Rules 20.37 and/or 20.38] respectively. The listed issuer may have to re-comply with [GEM Listing Rules 20.35(3) and (4)] and any other conditions the Exchange considers appropriate.

### Reporting requirements

14A.45 / 20.45 The following details of the connected transaction must be included in the listed issuer's next published annual report and accounts:

- (1) the transaction date;
- (2) the parties to the transaction and a description of their connected relationship;
- (3) a brief description of the transaction and its purpose;
- (4) the total consideration and terms (including, where relevant, interest rates, length of repayment and security); and

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(5) the nature and extent of the connected person's interest in the transaction.

14A.46 / 20.46 An issuer which has entered into a continuing connected transaction not falling under [Main Board Listing Rule 14A.33 / GEM Listing Rule 20.33], must disclose the information set out in [Main Board Listing Rule 14A.45 / GEM Listing Rule 20.45] in its subsequent published annual report and accounts for the financial years during which the issuer undertakes the transaction under the written agreement entered into pursuant to [Main Board Listing Rule 14A.35(1) / GEM Listing Rule 20.35(1)].

Main Board  
Listing Rule  
19A.04

The following terms, save where the context otherwise requires, have the following meanings:—

.....

**“PRC Governmental Body”**  
**(中國政府機關)**

for purposes of [Main Board Listing Rules 19A.14 and 19A.19], includes (but not limited to)

- (a) PRC Central Government, including the State Council of the PRC (中國國務院), State Ministries and Commissions (國家部委), Bureaus and Administrations directly under the State Council (國務院直屬機構), State Council Offices and Institutions (國務院辦事機構及直屬國務院事業單位), Bureaus supervised by State Ministries and Commissions (國家部委代管局);
- (b) PRC Provincial-level Governments, including Provincial Governments (省政府), Municipalities directly under the Central Government (直轄市) and Autonomous Regions (自治區), together with their respective administrative arms, agencies and institutions.
- (c) PRC local governments immediately under the PRC Provincial-level Governments, including prefectures (區), municipalities (市) and counties (縣), together with their respective administrative arms, agencies and institutions.

*Note: For clarity, entities under the PRC Government that are engaging in commercial business or operating another commercial entity will be excluded from this definition.*

**“PRC issuer”**

an issuer which is duly incorporated in the PRC as a joint stock limited company (股份有限公司)

.....

GEM Listing Rule 25.04 In this Chapter

.....

- (2) the term “PRC Governmental Body” means:—
- (a) PRC Central Government, including the State Council of the PRC (中國國務院), State Ministries and Commissions (國家部委), Bureaus and Administrations directly under the State Council (國務院直屬機構), State Council Offices and Institutions (國務院辦事機構及直屬國務院事業單位), Bureaus supervised by State Ministries and Commissions (國家部委代管局);
  - (b) PRC Provincial-level Governments, including Provincial Governments (省政府), Municipalities directly under the Central Government (直轄市) and Autonomous Regions (自治區), together with their respective administrative arms, agencies and institutions; or
  - (c) PRC Local Governments immediately under the PRC Provincial-level Governments, including prefectures (區), municipalities (市) and counties (縣), together with their respective administrative arms, agencies and institutions that is not engaging in commercial business or operating another commercial entity.

*Note: For clarity, entities under the PRC Government that are engaging in commercial business or operating another commercial entity will be excluded from this definition.*

### **Qualifications for Listing**

19A.19 / 25.14 In addition to the requirement of [Main Board Listing Rule 19A.14 / GEM Listing Rule 25.10], the Exchange may from time to time determine that certain persons or entities should be treated as connected persons of a PRC issuer for purposes of the connected transaction provisions of [Chapter 14A of Main Board Listing Rules / Chapter 20 of Main Board Listing Rules]. However, the Exchange will normally not treat a PRC Governmental Body (see definition in [Main Board Listing Rule 19A.04 / GAM Listing Rule 25.04]) as a connected person of a PRC issuer. If requested by the Exchange a PRC issuer must make written representations to the Exchange explaining its legal, commercial or other relationships with various associates or other persons or entities and must satisfy the Exchange that such persons or entities should not be treated as connected persons of the PRC issuer for the above purposes, or if the Exchange determines that such persons or entities should be treated as connected persons, then the PRC issuer must agree to comply with any additional obligations arising from such treatment as may be requested by the Exchange.

## Appendix 2

### Example Independent Auditor's Letter on Continuing Connected Transactions

#### To the Board of Directors of XYZ Limited ("the Company")

In accordance with our agreed terms of engagement dated [date], we have carried out procedures on the attached list<sup>1</sup> of continuing connected transactions entered into by the Company and its subsidiaries (collectively referred to as "the Group") for the year ended [date] and which the directors have advised us are to be disclosed in the Company's annual report for the year ended [date] ("the disclosed continuing connected transactions").

#### Directors' responsibilities

The Directors of the Company are responsible for the completeness and accuracy of disclosures of continuing connected transactions and the Company's compliance with the [Listing Rules][GEM Listing Rules] in respect of such transactions. This responsibility includes designing, implementing and maintaining internal controls relevant to the identification, recording, authorization and reporting of all continuing connected transactions.

#### Auditor's responsibilities

It is our responsibility to express a conclusion, based on our work, on the disclosed continuing connected transactions and to report our conclusions to you<sup>2</sup>.

#### Basis of conclusion

We conducted our engagement in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

Our work consisted of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures and testing transactions on a sample basis where we considered appropriate. Our work was 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 on the disclosed continuing connected transactions.

Furthermore, due to the nature of connected persons and transactions, it was not practicable for us to determine whether the disclosed continuing connected transactions and the books and records of the Group include all continuing connected transactions. It was impracticable for us to quantify the potential impact of this on the disclosures of continuing connected transactions in the Company's annual report. Accordingly, our report relates solely to the continuing connected transactions that have been disclosed to us and in the books and records of the Group made available to us.

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<sup>1</sup> This could either be a list of the continuing connected transactions disclosed in the listed issuer's annual report or an extract from the listed issuer's annual report that contains the relevant disclosures. Where the letter refers to the listed issuer's annual report, as the letter is issued at least 10 business days prior to bulk printing of the annual report, ordinarily the annual report will be in draft form when the auditor issues his letter.

<sup>2</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the letter in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

## Conclusion

Based on the foregoing, in respect of the disclosed continuing connected transactions:

- a. nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.
- b. for transactions involving the provision of goods or services by the Group, nothing has come to our attention that causes us to believe that the prices charged were not in accordance with the prices set out in the relevant agreements governing such transactions [or where the related agreement did not clearly specify a quantitative price, the prices charged were not consistent with prices charged for comparable transactions that were identified by management<sup>3</sup>].
- c. nothing has come to our attention that causes us to believe that there was not an agreement in place governing the transactions and that the prices charged were not in accordance with the pricing terms set out in the relevant agreements governing such transactions.
- d. with respect to the aggregate amount of [each of] the connected transactions set out in the attached list of continuing connected transactions, nothing has come to our attention that causes us to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value ("cap") disclosed in the previous announcement(s) dated [relevant date(s)] made by the Company in respect of [each of] the disclosed continuing connected transactions.

## Restriction on use of this letter

This letter is intended solely for the purpose of assisting you in respect of your obligations under the [Main Board Listing Rule 14A.38][GEM Listing Rule 20.38] with respect of continuing connected transactions. This letter is not intended to be, and should not be, used for any other purpose and we expressly disclaim any liability or duty to any other party in this respect including The Stock Exchange of Hong Kong Limited.

This letter should not be distributed to any other parties save that we agree that a copy of this letter may be provided by the Company to The Stock Exchange of Hong Kong Limited without further comment from us.

XYZ & Co.  
Certified Public Accountants (Practising) [or Certified Public Accountants]  
[Address]  
Date

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<sup>3</sup> Alternatively, depending on the circumstances, it may be appropriate to state that the prices charged were not less than prices charged for comparable transactions as identified by management.

## Appendix 3

### Example Engagement Letter

The following letter is to be used as a guide and will need to be adapted according to individual requirements and circumstances.

Auditors would seek their own advice as to the form of contract they wish to adopt and whether to include or attach other contractual terms of business. In addition, if auditors wish to include statements in the engagement letter limiting their liability and / or indemnifying them against third party claims in respect of the engagement, they would take legal advice concerning the wording of such statements and how they are communicated.

To the Board of Directors of [Name of the listed issuer] (“the Company”)

We are providing this letter to confirm our understanding of the terms and objectives of our engagement to report on the continuing connected transactions of the Company and its subsidiaries (“the Group”) to be disclosed in the Company’s annual report (“Transactions”). The purpose of our engagement is to provide assistance to you in respect of the requirements set out in Chapter [14A][20] of the Rules Governing the Listing of Securities on [the Growth Enterprise Market of] The Stock Exchange of Hong Kong Limited (“the Listing Rules”).

#### 1 Objective of our work

- 1.1 The objective of our work is to provide us with a basis for reporting whether anything has come to our attention that causes us to believe that:
- (a) the Transactions have not been approved by the Company’s board of directors.
  - (b) for those Transactions that involve provision of goods or services by the Group, the prices charged were not in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a quantitative price, the prices charged were not consistent with the prices charged for comparable transactions that were identified by management.
  - (c) there was not an agreement in place governing the Transactions and that the prices charged were not in accordance with the pricing terms set out in the relevant agreements governing such transactions.
  - (d) the Transactions have exceeded the maximum aggregate annual value disclosed in the relevant announcement(s) made by the Company in respect of each of the disclosed continuing connected transactions.

#### 2 Directors’ responsibility

- 2.1 The responsibility for ensuring the completeness and accuracy of disclosures of continuing connected transactions in the Company’s annual report and for the Company’s compliance with the Listing Rules with respect to continuing connected transactions and relevant laws and regulations rests solely with the Company and yourselves. This responsibility includes ensuring that the [Company][Group] has appropriate internal controls in place over the identification, recording, authorization and reporting of all connected transactions.
- 2.2 For the purposes of our work, you will make available to us, as and when required, all of the [Company’s][Group’s] books of account and all other relevant records and related information that we consider necessary.

- 2.3 We draw your attention to paragraph 37 of Chapter [14A][20] to the Listing Rules, which requires the Company's independent non-executive directors ("INEDs") to review and confirm in the annual report and accounts that the Transactions have been entered into:
- (a) in the ordinary and usual course of business of the Company;
  - (b) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Company than terms available to or from, as appropriate, independent third parties; and
  - (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The INEDs also have the responsibility to determine the scope and extent of its review so as to discharge its duty under the Listing Rules. Our engagement should not be taken as a substitute or basis for the INEDs' review.

- 2.4 We may require receipt of written representations from the Company's board of directors, INEDs or other members of management in connection with certain matters relating to the Transactions before we issue our letter reporting on the matters set out in paragraph 1.1 above. In connection with representations and the supply of information to us generally, you are responsible for the accuracy and completeness of any information or documentation provided to us.
- 2.5 Once we have issued our letter, we have no further direct responsibility to update or actively seek information on events occurring subsequent to the date of our letter. You will inform us of any event occurring subsequent to the date of our letter that may impact on our letter, prior to the issuance of the Company's annual report.

### **3 Scope and limitations of our work**

- 3.1 Our work will be carried out in accordance with Hong Kong Standards on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our work will consist of making inquiries, primarily of persons responsible for financial and accounting matters, applying analytical and other review procedures and testing transactions on a sample basis where we consider appropriate. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently will not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we will not express an audit opinion on the Transactions.
- 3.2 In addition, due to the nature of connected transactions, we will not be in a position to confirm the completeness of the Transactions or whether the Transactions are in accordance with normal commercial terms or in compliance with relevant laws and regulations.

### **4 Reporting, distribution and disclosure**

- 4.1 Our letter will be addressed to the board of directors and will be for your information only.
- 4.2 We will agree that a copy of the letter once issued may be provided to The Stock Exchange of Hong Kong Limited without further comment from us and that appropriate reference to our work in respect of the Transactions may be made in the Company's annual report. Such disclosure should appropriately reflect the nature of the work undertaken and the outcome of that work. We would be pleased to discuss those disclosures with you during the course of our engagement, although the responsibility for the appropriateness of disclosures in the Company's annual report rests solely with the Company.

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- 4.3 Our letter shall not be copied, referred to or disclosed in whole or in part, other than as set out in this letter, and we expressly disclaim any liability to any party, including The Stock Exchange of Hong Kong Limited, other than the Company in respect of our work under this engagement.
- 4.4 Save as set out above, you shall not make other references to us or our work or letter in this respect without our prior written consent, which shall not be unreasonably withheld.
- 4.5 We shall also report to you any material weaknesses in the Group's procedures that come to our attention in relation to this engagement and to which we think attention should be drawn. We shall exercise our professional judgement to determine the significance of any matter to be communicated and shall decide the appropriate means of communication. You should appreciate that our work should not be relied upon to identify all weaknesses, fraud or error that may exist.

**5 Other matters**

- 5.1 [We estimate that the fee for the work will be HK\$[*amount*], plus outlays which will be charged on an actual basis.][Our fee for the work has been incorporated in our audit fee which has been agreed with you separately.]
- 5.2 This letter shall be subject to and governed by Hong Kong law and all disputes arising from or under this engagement letter shall be subject to the exclusive jurisdiction of the Hong Kong courts.
- 5.3 This letter sets out the entire agreement and understanding between us and you in connection with the services to be delivered by us under this letter and supersedes all previous arrangements and understandings between us and you which shall cease to have any further force or effect.
- 5.4 This letter is effective in respect of reporting on continuing connected transactions in respect of the Company's annual report for the year [ending][ended] [*date*] and future years during our tenure as the Company's auditors or unless this letter is terminated by you or us, or amended or superseded by agreement in writing between you and us. Either party may terminate this engagement contract or suspend its operation by giving 30 days' prior notice in writing to the other at any time.
- 5.5 We should be grateful if you would confirm in writing your agreement to the terms of this letter by signing and returning the attached copy, or let us know if they are not in accordance with your understanding of our terms of appointment.

Yours faithfully

[Enclosures]

I have read and understood the terms and conditions of this letter and I agree to and accept them.

Signed

\_\_\_\_\_  
Duly authorised, for and on behalf of the Board of  
[*name of company to be audited*]

Date:

## Appendix 4

### Example Representation Letter

The following letter is not intended to be a standard letter. Representations by management will vary from one entity to another and from one period to the next.

(letterhead of the listed issuer)

Date

To [Name of auditors]

Dear Sirs

This representation is provided in connection with the work you performed for the purpose of reporting on the continuing connected transactions of [Name of the listed issuer] ("the Company") and its subsidiaries ("the Group") for the year ended [date] ("the Continuing Connected Transactions") in accordance with the engagement letter dated [date of engagement letter].

We confirm to the best of our knowledge and belief, the following representations given to you in respect of the above engagement:

1. We acknowledge that the work you performed was substantially less in scope than an audit and that, accordingly, you do not express an audit opinion on the Continuing Connected Transactions.
2. We acknowledge that we are responsible for ensuring, and confirm, that all continuing connected transactions entered into by the Group were in compliance with the applicable requirements as set out in Chapter [14A][20] of the Rules Governing the Listing of Securities on [the Growth Enterprise Market of] The Stock Exchange of Hong Kong Limited ("the Listing Rules").
3. We are responsible for, and confirm, the completeness and accuracy of the continuing connected transactions to be disclosed in the annual report and which are as set out in the attached Appendix.
4. We confirm that the Company has complied with the applicable reporting, approval and announcement requirements set out in the Listing Rules in respect of the continuing connected transactions.
5. We are responsible for ensuring, and confirm, that the [Company][Group] has appropriate internal controls over the identification, recording, authorization and reporting of all continuing connected transactions.
6. We confirm that we have made available to you all books of accounts, records and supporting documentation in respect of the Group's continuing connected transactions.
7. We confirm that we have disclosed to you the identity of the Company's connected parties and all the connected party relationships and transactions of which we are aware.
8. We confirm that:
  - the Continuing Connected Transactions have been approved by the Company's Board of Directors;
  - the prices charged for the Continuing Connected Transactions were in accordance with the Company's pricing policies and the pricing terms set out in relevant agreements governing such transactions or where the related agreement did not specify a price, the price charged was consistent with the price charged for comparable transactions that were identified by us;

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- there is a written agreement in place governing each of the Continuing Connected Transactions and the transactions have been entered into in accordance with such agreements. No side agreement has been entered into in respect of any transaction[, or if side agreements have been entered into, they have been made available to you]; [and]
  - the aggregate annual values of the Continuing Connected Transactions have not exceeded the maximum aggregate annual values of [*relevant amount(s)*] disclosed in previous announcement(s) dated [*relevant date(s)*] made by the Company in respect of [each of] the Continuing Connected Transaction(s)[.];[;]
9. We confirm that the Company's independent non-executive directors have reviewed the Continuing Connected Transactions and confirm that:
- the terms of the relevant agreement governing each of the Continuing Connected Transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole;
  - the Continuing Connected Transactions have been entered into in the ordinary and usual course of business of the Company; and
  - the Continuing Connected Transactions have been entered into on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties.
10. [Set out further additional representations to address specific circumstances of the client.]

Yours faithfully

By Order of the Board

\_\_\_\_\_  
Name:

Position:

\_\_\_\_\_  
Name:

Position: