

**PRACTICE NOTE
710
THE AUDITORS' STATEMENT ON
THE SUMMARY FINANCIAL REPORT**

(Issued May 2002; revised September 2004 (name change); revised June 2010)

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1. This PN710 is applicable for engagements for periods beginning before 15 December 2009.
2. For engagements for periods beginning on or after 15 December 2009, HKSA 810 (Clarified) "Engagements to Report on Summary Financial Statements" is applicable.

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

They are persuasive rather than prescriptive. However they are indicative of good practice and have similar status to the explanatory material in SASs and SAEs, even though they may be developed without the full process of consultation and exposure used for SASs and SAEs. Auditors should be prepared to explain departures when called upon to do so.

Introduction

1. The purpose of this Practice Note (PN) is to provide guidance to auditors who are asked by their listed company clients to report on summary financial reports.

Companies Ordinance

2. The Companies Ordinance was amended by the Companies (Amendment) Ordinance 2001 which was enacted on 8 November 2001 and commenced operation on 4 January 2002. As a result, a listed company incorporated in Hong Kong is permitted to send to an entitled person of the company (i.e. a member, a debenture holder or any other person who is entitled to receive notices of general meetings) a summary financial report in place of the full set of the annual report in certain circumstances and subject to certain conditions.
3. All references in this PN are to the Companies Ordinance and the Companies (Summary Financial Reports of Listed Companies) Regulation. This PN takes account of the law as at 4 January 2002. An extract of the relevant provisions of the law, effective as at 4 January 2002, on the form and contents of the summary financial report is set out in Appendix 1 to this PN.

Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules)

4. The Listing Agreement (Appendix 7 to the Listing Rules) states that a listed issuer may send a copy of its summary financial report to a member and a holder of its listed securities in place of a copy of its annual report and accounts, provided that it complies with the relevant provisions set out in the Companies Ordinance and the Companies (Summary Financial Reports of Listed Companies) Regulation or, in the case of overseas issuers, with provisions no less onerous than the aforementioned provisions for listed issuers incorporated in Hong Kong.
5. The Listing Rules (Chapter 1) define a summary financial report as one which complies with section 141CF(1) of the Companies Ordinance.

Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the GEM Listing Rules)

6. The GEM Listing Rules (Chapters 18 and 31) state that a listed issuer may send a copy of its summary financial report to a member and a holder of its listed securities in place of a copy of its annual report and accounts, provided that it complies with the relevant provisions set out in the Companies Ordinance and the Companies (Summary Financial Reports of Listed Companies) Regulation or, in the case of overseas issuers, with provisions no less onerous than the aforementioned provisions for listed issuers incorporated in Hong Kong.
7. The GEM Listing Rules (Chapter 1) define a summary financial report as one which complies with section 141CF(1) of the Companies Ordinance.

Definitions

8. For the purpose of this PN, the following definitions apply:
 - a. CO - the Companies Ordinance;
 - b. Regulation - the Companies (Summary Financial Reports of Listed Companies) Regulation;
 - c. summary financial report (SFR) - a report of a company prepared by the directors which complies with section 141CF(1) of the CO;
 - d. other information - financial and non-financial information, in addition to that legally required to be included in the SFR under section 141CF(1) of the CO, which is issued by the directors to accompany the SFR; and
 - e. annual accounts - a complete set of financial statements for a financial year, the components of which are:
 - i. balance sheet;
 - ii. income statement;
 - iii. statement of movements in equity;
 - iv. cash flow statement; and
 - v. accounting policies and explanatory notes.

The scope of the auditors' work

9. Section 5(3)(d) of the Regulation requires that auditors form an opinion as to whether the SFR is consistent with the relevant financial documents (defined by section 2 of the CO as the documents required to be sent under section 129G(1) of the CO in respect of the company, meaning the annual accounts, directors' report and auditors' report) from which it is derived and whether it complies with the requirements of section 5 of the Regulation.
10. In accordance with SAE 200 "High level assurance engagements", the auditors' procedures are directed towards obtaining sufficient appropriate evidence to support this opinion.

Consideration of the other information

11. Where the SFR is issued together with the other information in a document, the SFR within such a document is identified by reference to page numbers.
12. To indicate that the auditors are neither responsible for nor reporting on the other information, it is considered good practice for the auditors to be specific as to what they are reporting by identifying in the auditors' statement on the SFR the page numbers containing the SFR as follows:

"We have examined the summary financial report of [name of reporting entity] for the year ended on pages to"

13. Although the auditors are not responsible for the other information, there could be a belief on the part of the reader that the auditors have in fact satisfied themselves that the other information is accurate or at least not misleading. The auditors therefore consider whether the other information is materially inconsistent or misleading in accordance with the principles in SAS 160 "Other information in documents containing audited financial statements".

The auditors' procedures

14. When planning the audit of the annual accounts of a listed company, the auditors ascertain whether a SFR will be prepared and whether the other information will be issued to accompany the SFR. In accordance with SAE 200 "High level assurance engagements", auditors agree with the directors the terms of their engagement in writing in an engagement letter, which records the scope of the examination, the respective responsibilities of the directors and auditors and the expected wording of the auditors' statement on the SFR.
15. Auditors normally carry out their work on the SFR at the same time as completing the annual audit, rather than after its completion, so that their auditors' statement on the SFR and their auditors' report on the annual accounts can be issued at the same time. The auditors therefore encourage the directors to take this into account when they are planning the timetable for the preparation of the annual accounts.

16. The auditors' procedures in relation to the SFR are directed towards consideration of the matters on which they are required, by section 5(3)(d) of the Regulation, to express an opinion, namely:
 - a. whether the SFR is consistent with the annual accounts, directors' report and auditors' report; and
 - b. whether the SFR complies with the requirements of section 5 of the Regulation.

Consistency with the annual accounts, directors' report and auditors' report

17. The auditors state whether in their opinion the SFR is consistent with the annual accounts, directors' report and auditors' report. The auditors are not required to form an opinion on whether the SFR gives a true and fair view. It is in any event most unlikely that the SFR could give a true and fair view in any practical situation, as much of the detailed information from which it has been extracted is not presented. Shareholders and other users do not, therefore, have the same expectations of the SFR as they do of the annual accounts.
18. Matters which may give rise to an inconsistency include:
 - a. information which has been inaccurately extracted from the annual accounts, directors' report and auditors' report; and
 - b. information which, in the auditors' opinion, has been summarised in a manner which is not consistent with the annual accounts, directors' report and auditors' report.
19. When the auditors identify what they believe may be an inconsistency, they discuss the matter with the directors or senior management, as appropriate, so that they may eliminate the inconsistency.
20. If discussion with the directors or senior management does not result in the elimination of the inconsistency, the auditors modify their statement on the SFR. The modified auditors' statement on the SFR includes a description of the inconsistency.

Compliance with section 5 of the Regulation

21. In order to give the opinion required by section 5(3)(d) of the Regulation (paragraph 9 above), the auditors give consideration to the specific and detailed requirements of section 5 of the Regulation. Auditors include within the scope of their examination all matters required to be included in the SFR by section 5 of the Regulation.
22. Under section 5(3)(c) of the Regulation, the SFR is required to contain a statement from the auditors as to whether the auditors' report on the annual accounts from which the SFR is derived is qualified or otherwise modified, and if it is, the auditors' report on the annual accounts and any further material necessary for the understanding of the qualification or other modification are required to be set out in the SFR. Therefore, where such a qualification or other modification includes a reference to a note to the annual accounts but does not reproduce the relevant information contained in that note, that information is also reproduced in the SFR to accompany the auditors' report on the annual accounts.
23. An inconsistency between the SFR and the annual accounts, directors' report and auditors' report also means that the SFR is not properly derived from them and does not comply with the Regulation, it therefore leads to a qualification of the auditors' statement on the SFR on the grounds of non-compliance with the requirements of section 5 of the Regulation as well as on the grounds of the inconsistency.

The auditors' statement

24. In accordance with the principles in SAE 200 "High level assurance engagements", the auditors' statement on the SFR includes the following matters:
 - a. a title;
 - b. an addressee (i.e. identifying the persons to whom the auditors' statement on the SFR is addressed) - the CO, the Listing Rules or the GEM Listing Rules do not specify to whom the auditors' statement on the SFR is to be addressed; the auditors' statement on the SFR is normally addressed to the shareholders;
 - c. an introductory paragraph - identifying the SFR examined by reference to page numbers;
 - d. separate sections, appropriately headed, dealing with:
 - i. the respective responsibilities of the directors and auditors - the auditors state that the

directors are responsible for the SFR and provide a description of the auditors' responsibilities;

- ii. the basis of the auditors' opinion - the auditors provide a description of the engagement and indicate that:
 - the criteria used to evaluate the SFR is by its consistency with the annual accounts, directors' report and auditors' report for the year concerned, and its compliance with the requirements of section 5 of the Regulation; and
 - their work was conducted in accordance with Standards on Assurance Engagements and with reference to this PN; and
- iii. the auditors' opinion on the SFR - the auditors state whether in their opinion:
 - the SFR is consistent with the annual accounts, directors' report and auditors' report for the year concerned; and
 - the SFR complies with the requirements of section 5 of the Regulation;
- e. other information required - a statement as to whether the auditors' report on the annual accounts is qualified or otherwise modified;
- f. the signature of the auditors;
- g. the name of the corporate practice or the auditors and the place of issue of the auditors' statement on the SFR; and
- h. the date of the auditors' statement on the SFR.

Date of the auditors' statement on the SFR

25. The date of the auditors' statement on the SFR is the completion date of the examination of the SFR.
26. Since the auditors' responsibility is to report on the SFR as prepared by the directors, the auditors would not date the auditors' statement on the SFR earlier than the date on which the SFR is approved by the directors.

Example auditors' statement on the SFR

27. An example auditors' statement on the SFR is given in Appendix 2 to this PN. If the auditors cannot give the opinion indicated above, they modify their statement on the SFR accordingly.

Appendix 1

Extracts of the relevant sections of the Companies Ordinance and the Companies (Summary Financial Reports of Listed Companies) Regulation, effective as at 4 January 2002, on the form and contents of summary financial reports

Section 141CF of the Companies Ordinance - Form and contents, etc. of summary financial reports

- (1) A summary financial report in relation to a general meeting of a listed company shall be -
 - a. derived from the relevant financial documents required to be laid before the company in that meeting;
 - b. in such form and contain such information and particulars as specified in regulations made under section 359A(2); and
 - c. approved by the board of directors of the company.
- (2) Nothing in subsection (1) shall be construed as prohibiting a listed company from including in a summary financial report any other information or particulars which -
 - a. the company considers appropriate; and
 - b. is not inconsistent with the relevant financial documents from which the summary financial report is derived.
- (3) If a document, purporting to be a summary financial report of a listed company, does not comply with subsection (1) and is circulated, issued or published by the company to any other person, unless there is reasonable excuse -
 - a. the company shall be guilty of an offence and liable to a fine; and
 - b. every officer of the company shall be guilty of an offence and liable to a fine and imprisonment.

Section 5 of the Companies (Summary Financial Reports of Listed Companies) Regulation - Form and contents of summary financial reports

- (1) A summary financial report of a listed company shall contain all the information and particulars included in the company's balance sheet and profit and loss account as they appear in the relevant financial documents.
- (2) The balance sheet and profit and loss account referred to in subsection (1) of a listed company shall be the company's consolidated balance sheet and consolidated profit and loss account if the company is presenting group accounts.
- (3) In addition, a summary financial report of a listed company shall -
 - a. contain such information and particulars as included in the directors' report of the company and specified in section 129D(3) of the Ordinance;
 - b. if the auditors' report of the company contains any of the following statements -
 - i. a statement that proper books of account have not been kept by the company;
 - ii. a statement that proper returns adequate for the auditors' audit have not been received from branches of the company not visited by the auditors;
 - iii. a statement that the company's balance sheet and (unless it is framed as a consolidated profit and loss account) profit and loss account referred to in subsection (1) are not in agreement with the books of account and returns;
 - iv. a statement that the auditors failed to obtain all the information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of their audit,set out that statement;
 - c. contain a statement from the company's auditors as to whether the auditors' report concerned is qualified or otherwise modified, and (if the auditors' report is qualified or otherwise modified) set out the full auditors' report and any further material necessary for the understanding of the

qualification or other modification;

- d. contain an opinion from the company's auditors as to whether the summary financial report is consistent with the relevant financial documents from which it is derived and whether it complies with the requirements of this section;
- e. include a fair review of the development of the business of the company and its subsidiaries (if any) during the financial year concerned and of the position at the end of that year;
- f. include particulars of all important events which have occurred since the end of the financial year concerned and affected the company and (if applicable) the group of companies to which the company belongs;
- g. indicate the likely future developments of the business of the company;
- h. include particulars specified under sections 161, 161A and 161B of the Ordinance;
- i. contain in a prominent position -
 - i. on the front cover of the report;
 - ii. (if there is more than one cover purporting to be the front cover) on every such cover;
 - iii. (if the report has no cover or no front cover) on the first page of the report; or
 - iv. (if the report has no cover and there is more than one page purporting to be the front page) on every such page,

a statement to the effect that the summary financial report only gives a summary of the information and particulars contained in the company's relevant financial documents from which it is derived and an entitled person of the company may obtain free of charge a copy of those relevant financial documents;
- j. contain in a prominent position in the report a statement as to how an entitled person of the company may obtain free of charge a copy of the company's relevant financial documents from which the report is derived;
- k. contain in a prominent position in the report a statement as to the manner in which the person may in future notify the company of his wishes in relation to the sending to the person a copy of a summary financial report in place of a copy of the relevant financial documents from which it is derived; and
- l. state the names of the directors who have signed the report on behalf of the board of directors of the company.

- (4) Subject to the provisions of this Regulation, a listed company may specify such other requirements in relation to the form of its summary financial report as the company thinks fit.

Appendix 2

Example auditors' statement on the summary financial report

AUDITORS' STATEMENT ON THE SUMMARY FINANCIAL REPORT TO THE SHAREHOLDERS OF XYZ LIMITED

(incorporated in [Hong Kong] with limited liability)

We have examined the summary financial report of XYZ Limited for the year ended [*insert date here*] on pages ... to

Respective responsibilities of directors and auditors

[Under the Hong Kong Companies Ordinance, the/The] directors are responsible for preparing the summary financial report which complies with section 141CF(1) of the [Hong Kong] Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the [Hong Kong] Companies Ordinance requires that the summary financial report be derived from the annual accounts and the auditors' report thereon and the directors' report for the year ended [*insert date here*], be in such form and contain such information and particulars as specified in section 5 of the [Hong Kong] Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

It is our responsibility to form an independent opinion on the summary financial report, based on our examination, and to report our opinion to you. We are also required to state whether the auditors' report on the annual accounts for the year ended [*insert date here*] is qualified or otherwise modified.

Basis of opinion

We conducted our engagement in accordance with Standards on Assurance Engagements and with reference to Practice Note 710 "The auditors' statement on the summary financial report" issued by the Hong Kong Institute of Certified Public Accountants. Our examination includes examining evidence supporting the consistency of the summary financial report with the annual accounts and the auditors' report thereon and the directors' report for the year ended [*insert date here*], and the compliance of the summary financial report with the requirements of section 5 of the [Hong Kong] Companies (Summary Financial Reports of Listed Companies) Regulation, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Opinion

Based on the foregoing, in our opinion the summary financial report on pages ... to ... :

- a. is consistent with the annual accounts and the auditors' report thereon and the directors' report of XYZ Limited for the year ended [*insert date here*] from which it is derived; and
- b. complies with the requirements of section 5 of the [Hong Kong] Companies (Summary Financial Reports of Listed Companies) Regulation.

We have audited the annual accounts of XYZ Limited for the year ended [*insert date here*] and have issued an auditors' report thereon dated [*insert date here*] which is unqualified or otherwise unmodified.

OR

We have audited the annual accounts of XYZ Limited for the year ended [*insert date here*] and have issued an auditors' report thereon dated [*insert date here*] which is unqualified but modified in respect of A copy of the modified auditors' report [and the further material necessary for the understanding of the modification] [has/have] been set out on pages ... to ... of the summary financial report.

OR

We have audited the annual accounts of XYZ Limited for the year ended [*insert date here*] and have issued an auditors' report thereon dated [*insert date here*] which is qualified. A copy of the qualified auditors' report [and the further material necessary for the understanding of the qualification] [has/have] been set out on pages ... to ... of the summary financial report.

ABC & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

Hong Kong

Date