

Practice Note 750

Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal



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

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PRACTICE NOTE 750

REVIEW OF FINANCIAL INFORMATION UNDER THE HONG KONG LISTING RULES FOR A VERY SUBSTANTIAL DISPOSAL

(Issued February 2013; revised May 2022)

CONTENTS

	Paragraphs
Introduction	1 – 9
Basis of Preparation of the Financial Information	10-13
The Objective of the Review Engagement	14 - 15
Terms of Engagement	16-19
Conclusion and Reporting	20 - 24
Effective Date	25
Appendix 1 Examples of Engagement Letters for a Review of Financial Information Included in a VSD Circular	
Appendix 2 Examples of Review Reports on Financial Information Included in a VSD Circular	
Appendix 3 Summary of Relevant Main Board Listing Rules and GEM Listing Rules	

Practice Note (PN) 750, *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal* should be read in the context of the *Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* which sets out the application and authority of PNs.

PRACTICE NOTE 750

REVIEW OF FINANCIAL INFORMATION UNDER THE HONG KONG LISTING RULES FOR A VERY SUBSTANTIAL DISPOSAL

The purpose of Practice Notes issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) is to assist the practitioner in applying Hong Kong Engagement Standards 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 Hong Kong Engagement Standards. This Practice Note provides guidance to assist the practitioner to fulfill the objectives of the engagement. The practitioner 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 practitioners as to their responsibilities when they are engaged to review the financial information included in a circular issued in relation to a very substantial disposal (VSD) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board Listing Rules) Rule 14.68(2)(a)(i) or the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (GEM Listing Rules) Rule 19.68(2)(a)(i) (collectively referred to as the “Listing Rules on a VSD”) issued by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and on the form and content of their reports.
2. This PN is directed towards the review of financial information, and is to be read in conjunction with the *Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*. Guidance in other PNs and in Hong Kong Standards on Review Engagements (HKSREs) may be useful to the practitioner in applying this PN. This PN may also be applied to engagements conducted in accordance with International Standards on Review Engagements.
3. Main Board Listing Rule 14.68(2)(a)(i) / GEM Listing Rule 19.68(2)(a)(i) requires that the financial information contained in a VSD circular must be prepared by the directors of the listed issuer using accounting policies of the listed issuer. The financial information must contain at least the income statement, balance sheet, cash flow statement¹ and statement of changes in equity. In addition, the financial information must be reviewed by the listed issuer’s auditor or reporting accountant. The circular must contain a statement that the financial information has been reviewed by the issuer’s auditor or reporting accountant and details of any qualifications or modifications in the review report.
4. The term “practitioner” is used throughout this PN as a matter of convenience and to cover both situations i.e. where the practitioner is the auditor of the listed issuer and where the practitioner is not the auditor, but the reporting accountant, of the listed issuer. The use of the term “practitioner” should not be construed as meaning the engagements which are covered by this PN are in the nature of an audit. Where the term “auditor” or the term “reporting accountant” is used in this PN it is a specific reference to a practitioner who is the auditor of the listed issuer or to a practitioner who is not the auditor, but the reporting accountant, of the listed issuer respectively.
5. This PN has been prepared in consultation with the Stock Exchange and with staff of the Securities and Futures Commission and is based on the ‘Main Board Listing Rules and GEM Listing Rules as at 31 December 2012. A summary of the relevant Listing Rules is set out in Appendix 3 to this PN.

¹ Different terms such as statement of comprehensive income, statement of financial position and statement of cash flows may be used.

6. The Main Board Listing Rule 14.68 / GEM Listing Rule 19.68 (see Appendix 3 of this PN) allows a number of ways of presenting financial information in a VSD circular in relation to the disposal of a company or business:
- (a) financial information of either:
 - (i) the business or companies being disposed of (14.68 / 19.68 (2)(a)(i)(A)); or
 - (ii) the listed issuer's group with the business or companies being disposed of shown separately as (a) disposal group(s) or (a) discontinuing operation(s) (14.68 / 19.68 (2)(a)(i)(B)).
 - (b) an accountants' report prepared in accordance with Chapter 4 of Main Board Listing Rules/ Chapter 7 of GEM Listing Rules.

The relevant guidance for a practitioner engaged to prepare the accountants' report and examine financial information of this nature is contained in Hong Kong Standards on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* which is effective for engagements where the investment circular is dated on or after 1 July 2017.

7. This PN is mainly focused on the review performed by a practitioner of financial information of the business or companies being disposed of, described in option (a)(i) above. However, the practitioner may also refer to this PN if option (a)(ii) is selected, pursuant to which the financial information of the disposal group or discontinuing operations is required to be disclosed in addition to the financial information of the listed issuer. For financial information presented using option (a)(ii) above, the financial information should be prepared in accordance with the financial reporting framework adopted in the preparation of the annual financial statements of the listed issuer.
8. A practitioner who is engaged to perform a review of the financial information included in a VSD circular, and who is not the auditor of the listed issuer, or where applicable, the companies being disposed of, should perform the review with reference to this PN and in accordance with HKSRE 2400 (Revised), *Engagements to Review Financial Statements*. The practitioner in this situation does not ordinarily have the same understanding of the reporting entity and its environment, including internal control, as the auditor of the reporting entity, therefore, the practitioner needs to carry out different or additional inquiries and procedures to meet the objective of the review.
9. A practitioner who is engaged to perform a review of the financial information included in a VSD circular, and who is also the auditor of the listed issuer, or where applicable, the companies being disposed of should perform the review with reference to this PN and in accordance with HKSRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*.

Basis of Preparation of the Financial Information

10. As stated in paragraph 3 above, the financial information contained in the VSD circular must be prepared by the directors of the listed issuer and must contain at least the income statement, balance sheet, cash flow statement and statement of changes in equity. Thus, there may be situations where the listed issuer wishes to comply only with the minimum disclosure requirements and disclose only the four primary statements without any or with only selected explanatory notes. In this situation, the financial information provided would not be a complete set of financial statements as described in Hong Kong Accounting Standard 1 *Presentation of Financial Statements*. The financial information may also not be a complete condensed interim financial report as defined in Hong Kong Accounting Standard 34 *Interim Financial Reporting*.

11. While there is no specific requirement on the extent of explanatory notes to the financial information included in the VSD circular, the listed issuer must comply with the general disclosure obligations under Main Board Listing Rule 14.63 / GEM Listing Rule 19.63 (see extracted in Appendix 3 to this PN) and, include any notes that are considered necessary by the directors for shareholders to make an informed assessment of the transaction which is the subject of the VSD circular.
12. The financial information included in a VSD circular should include:
 - (a) the basis of preparation and presentation of the financial information and accompanied by necessary note(s) referring to relevant requirements of the Listing Rules on a VSD; and
 - (b) the principal accounting policies adopted. In the interest of conciseness, the principal accounting policies adopted for the preparation of the financial information included in the VSD circular may make reference to the accounting policies included in the latest published financial statements of the listed issuer.
13. In addition, the explanatory notes to the financial information should include a statement to address that the financial information prepared in accordance with Main Board Listing Rule 14.68(2)(a)(i) / GEM Listing Rule 19.68(2)(a)(i), whichever is appropriate, is not a complete set of financial statements as described in Hong Kong Accounting Standard 1 *Presentation of Financial Statements*, and that it should be read in connection with the relevant published annual and/or interim financial statements of the listed issuer.

The Objective of the Review Engagement

14. The objective of the review engagement under the scope of this PN is to report on the financial information as mentioned in paragraph 6(a) in accordance with the basis of preparation of the financial information pursuant to the relevant Listing Rules on a VSD. The practitioner should also refer to the objective stated in HKSRE 2400 (Revised) or HKSRE 2410, as appropriate.

Performing the Review in Accordance with HKSRE 2400 (Revised)/ HKSRE 2410

15. The practitioner should apply the requirements, principles and guidance in HKSRE 2400 (Revised)/ HKSRE 2410 and, where appropriate, adapt them for application in the specific circumstances of an engagement to review the financial information included in a VSD circular.

Terms of Engagement

16. The procedures required to conduct a review of financial information in a VSD circular should be determined by the practitioner having regard to the guidance of this PN and the Listing Rules on a VSD.
17. The practitioner should exercise professional judgment in accepting and planning the review engagement as to whether the financial information provided is sufficient for the practitioner to complete the review engagement under the particular circumstances of the business or companies being disposed of.
18. The practitioner and the listed issuer should agree on the terms of the engagement. The agreed terms would be recorded in an engagement letter. Appendix 1 sets out illustrative examples of engagement letters.
19. If the review engagement is performed by a reporting accountant, the reporting accountant should clarify the scope of work with the listed issuer including that the review engagement does not constitute an audit of the disposal entity and that the listed issuer is required to make appropriate arrangements in relation to its subsequent annual audit. If the review engagement is performed by the listed issuer's auditor, the auditor should plan for the work in relation to the subsequent annual audit of the listed issuer. This arrangement should help to avoid a possible modification in the annual audit report of the listed issuer as a result of limited access to the books and records of the business or companies disposed of. The responsibility for ensuring

that adequate books and records of the business or companies disposed of is that of the directors of the listed issuer.

Conclusion and Reporting

20. Based on the work performed, the practitioner's review report should include a review conclusion as to whether anything has come to the practitioner's attention that causes the practitioner to believe that the financial information is not prepared, in all material respect, in accordance with the basis of preparation set forth in such note(s) to the financial information.
21. The practitioner should ensure that the review conclusion does not mention that the financial information is "fairly presented, in all material respects" or "gives a true and fair view" as the financial information prepared under the minimum requirements of the Listing Rules on a VSD does not constitute a complete set of financial statements. Guidance is set out in paragraphs 43(i) and (j) of HKSRE 2410.

Modifications

22. Circumstances may arise where the practitioner believes that a modified report is appropriate. The practitioner should consider the impact on the review report of any modification contained in an auditor's report on the listed issuer's financial statements covering the relevant period.

Emphasis of matter

23. The practitioner may, where appropriate, include an emphasis of matter paragraph in the review report to draw users' attention to a matter presented or disclosed in the financial information that, in the practitioner's judgement, is of such importance that it is fundamental to users' understanding of the financial information. The paragraph would preferably be included after the conclusion paragraph and ordinarily refer to the fact that the conclusion is not modified in this respect.

Illustrative examples of statement by the listed issuer's board of directors

24. Main Board Listing Rule 14.68(2)(a)(i) / GEM Listing Rule 19.68(2)(a)(i) requires that the listed issuer's board of directors must include a statement in a VSD circular that the financial information has been reviewed by the listed issuer's auditor or reporting accountant and details of any qualifications or modifications in the review report.
 - (a) An illustrative example of a disclosure where the review report issued does not contain any modification is set out below.

The Listed Issuer's [auditor/ reporting accountant] was engaged to review the financial information of the Disposal Entity set out in pages... to ... in accordance with Hong Kong Standard on Review Engagements [2400 (Revised), Engagements to Review Financial Statements]/ [2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity] and with reference to Practice Note 750, Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal issued by the Hong Kong Institute of Certified Public Accountants. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the [auditor/ reporting accountant] to obtain assurance that the [auditor/ reporting accountant] would become aware of all significant matters that might be identified in an audit. Accordingly, the [auditor/ reporting accountant] does not express an audit opinion. The [auditor/ reporting accountant] has issued an unmodified review report.

- (b) An illustrative example of a disclosure where the review report issued contains a modification is set out below.

The Listed Issuer's [auditor/ reporting accountant] was engaged to review the financial information of the Disposal Entity set out in pages... to ... in accordance with Hong Kong

Standard on Review Engagements [2400 (Revised), Engagements to Review Financial Statements]/ [2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity] and with reference to Practice Note 750, Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal issued by the Hong Kong Institute of Certified Public Accountants. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the [auditor/ reporting accountant] to obtain assurance that the [auditor/ reporting accountant] would become aware of all significant matters that might be identified in an audit. Accordingly, the [auditor/ reporting accountant] does not express an audit opinion. The [auditor/ reporting accountant] has issued a qualified review report which states that (explain reason for report qualification, for example,

“The Disposal Entity’s investment in DEF Limited, a foreign associate accounted for by the equity method, is carried at xxx on the statement of financial position as at 31 December 20X1, and the Disposal Entity’s share of DEF’s net income of xxx is included in the Disposal Entity’s income for the year then ended. We were unable to obtain access to the relevant financial information of DEF concerning the carrying amount of the Disposal Entity’s investment in DEF as at 31 December 20X1 and the Disposal Entity’s share of DEF’s net income for the year then ended. Consequently, we were unable to perform the procedures we considered necessary.

Based on our review, except for the possible effects of the matters described in the preceding paragraph, nothing has come to our attention that causes us to believe that the financial information of the Disposal Entity for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note x to the financial information”).

- (c) An illustrative example of a disclosure where the review report issued contains an emphasis of matter paragraph is set out below.

The Listed Issuer’s [auditor/ reporting accountant] was engaged to review the financial information of the Disposal Entity set out in pages... to ... in accordance with Hong Kong Standard on Review Engagements [2400 (Revised), Engagements to Review Financial Statements]/ [2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity] and with reference to Practice Note 750, Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal issued by the Hong Kong Institute of Certified Public Accountants. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable the [auditor/ reporting accountant] to obtain assurance that the [auditor/ reporting accountant] would become aware of all significant matters that might be identified in an audit. Accordingly, the [auditor/ reporting accountant] does not express an audit opinion. The [auditor/ reporting accountant] has included an emphasis of matter paragraph (without modification) in the review report which states that:

“Without modifying our review conclusion, we draw attention to note X to the financial information which indicates that the Disposal Entity incurred a net loss of zzz during the year ended 31 December 20X1 and, as of that date, the Disposal Entity’s current liabilities exceeded its total assets by yyy. These conditions, along with other matters as set forth in note X, indicate the existence of a material uncertainty that may cast significant doubt about the Disposal Entity’s ability to continue as a going concern.”

Effective Date

25. This PN is effective for reviews of financial information included in a VSD circular dated on or after 1 June 2013. Earlier adoption of the PN is permissible.

Appendix 1

Examples of Engagement Letters for a Review of Financial Information Included in a VSD Circular

- Illustration 1: Engagement letter for a review of financial information included in a VSD circular conducted in accordance with HKSRE 2400 (Revised).
- Illustration 2: Engagement letter for a review of financial information included in a VSD circular conducted in accordance with HKSRE 2410.

Illustration 1: Engagement letter for a review of financial information included in a VSD circular conducted in accordance with HKSRE 2400 (Revised)

The following letter is to be used as a guide in conjunction with the considerations outlined in paragraph 37 of HKSRE 2400 (Revised) and will need to be adapted according to individual requirements and circumstances.

To the Board of Directors of [name of the listed issuer]²

[The objective and scope of the review]

You³ have requested that we review ABC Entity's [balance sheets][statements of financial position]⁴ as of [respective reporting period end dates] and the [income statements][statements of comprehensive income]⁴, statements of changes in equity and [cash flows statements][statements of cash flows]⁴ for each of the periods then ended and explanatory notes (the "financial information"), which is prepared solely for the purpose of inclusion in the circular to be issued by [name of the listed issuer] (the "Issuer") in connection with the disposal of ABC Entity (the "Disposal Entity"). We are pleased to confirm our acceptance and our understanding of this review engagement by means of this letter.

Our review will be conducted with the objective of expressing our conclusion on the financial information. Our conclusion, if unmodified, will be in the form "Based on our review, nothing has come to our attention that causes us to believe that the financial information of the Disposal Entity for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note X to the financial information."

[The practitioner's responsibilities]

We will conduct our review in accordance with Hong Kong Standard on Review Engagements (HKSRE) 2400 (Revised), *Engagements to Review Historical Financial Statements* and with reference to Practice Note 750, *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal* issued by the Hong Kong Institute of Certified Public Accountants.⁵ HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial information, taken as a whole, is not prepared in all material respects in accordance with the basis of preparation set out in the financial information. HKSRE 2400 (Revised) also requires us to comply with relevant ethical requirements.

A review of financial information in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. We will perform procedures, primarily consisting of making inquiries of management and others within the Issuer and the Disposal Entity, as appropriate, and applying analytical procedures, and evaluate the evidence obtained. We will also perform additional procedures if we become aware of matters that cause us to believe the financial information as a whole may be materially misstated. These procedures are performed to enable us to express our conclusion on the financial information in accordance with HKSRE 2400 (Revised). The procedures selected will depend on what we consider necessary applying our professional judgment, based on our understanding of the Issuer and the Disposal Entity and their environment, and our understanding of the basis on which the financial information is prepared and the accounting policies adopted and its application in the industry context.

A review is not an audit of the financial information, therefore:

² According to Main Board Listing Rules 14.68(2)(a)(i) / GEM Listing Rules 19.68(2)(a)(i), the financial information must be prepared by the directors of the listed issuer and reviewed by the listed issuer's auditor or reporting accountant.

³ Throughout this letter, references to "you," "we," "us," "management," and "practitioner" would be used or amended as appropriate in the circumstances.

⁴ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

⁵ Practitioners may consider it appropriate to clarify to whom they are responsible here 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".

REVIEW OF FINANCIAL INFORMATION UNDER THE HONG KONG LISTING RULES
FOR A VERY SUBSTANTIAL DISPOSAL

- (a) There is a commensurate higher risk than there would be in an audit, that any material misstatements that exist in the financial information reviewed may not be revealed by the review, even though the review is properly performed in accordance with HKSRE 2400 (Revised).
- (b) In expressing our conclusion from the review of the financial information, our report on the financial information will expressly disclaim any audit opinion on the financial information.

[The responsibilities of directors and identification of the basis of preparation]

Our review will be conducted on the basis that the directors acknowledge and understand that they have the responsibility:

- (a) To prepare the financial information using accounting policies of the Issuer which must contain at least the income statement, balance sheet, cash flow statement and statement of changes in equity as required under [Main Board Listing Rules 14.68(2)(a)(i) / GEM Listing Rules 19.68(2)(a)(i)].
- (b) To determine the adequacy of additional notes contained in the circular.
- (c) To design, implement and maintain internal control as management determines is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error; and
- (d) To provide us with:
 - i. Access to all information of which management is aware that is relevant to the preparation of the financial information, such as records, documentation and other matters;
 - ii. Additional information that we may request from management for the purpose of the review; and
 - iii. Unrestricted access to persons within the Issuer and the Disposal Entity from whom we determine it necessary to obtain evidence.

As part of our review, we will request from the directors, written confirmation concerning representations made to us in connection with the review.

We look forward to full cooperation from your staff during our review.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

[Insert appropriate reference to the expected form and content of the practitioner's report.]

The form and content of our report may need to be amended in the light of our findings obtained from the review.

REVIEW OF FINANCIAL INFORMATION UNDER THE HONG KONG LISTING RULES
FOR A VERY SUBSTANTIAL DISPOSAL

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our review of the financial information including our respective responsibilities.

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

We agree to the terms of this letter.

(signed)

.....
Director, for and on behalf of the Board of [name of the listed issuer]

Date

Illustration 2: Engagement letter for a review of financial information included in a VSD circular conducted in accordance with HKSRE 2410

The following letter is to be used as a guide in conjunction with the considerations outlined in paragraph 11 of HKSRE 2410 and will need to be adapted according to individual requirements and circumstances.

To the Board of Directors of [name of the listed issuer]⁶

We are providing this letter to confirm our understanding of the terms and objectives of our engagement to review ABC Entity's [balance sheets][statements of financial position]⁷ as of [respective reporting period end dates] and the [income statements][statements of comprehensive income]⁷, statements of changes in equity and [cash flows statements][statements of cash flows]⁷ for each of the periods then ended and explanatory notes (the "financial information"), which is prepared solely for the purpose of inclusion in the circular to be issued by [name of the listed issuer] (the "Issuer") in connection with the disposal of ABC Entity (the "Disposal Entity").

Our review will be conducted in accordance with Hong Kong Standard on Review Engagements [2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*] and with reference to Practice Note 750, *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal* issued by the Hong Kong Institute of Certified Public Accountants with the objective of providing us with a basis for reporting whether anything has come to our attention that causes us to believe that the financial information is not prepared, in all material respects, in accordance with the basis of preparation set out in notes to the financial information. Such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures and does not, ordinarily, require corroboration of the information obtained. The scope of a review of the financial information is substantially less than the scope of an audit conducted in accordance with Hong Kong Standards on Auditing whose objective is the expression of an audit opinion regarding the financial information and, accordingly, we shall express no such opinion.⁸

We expect to report on the financial information as follows:

[Include text of sample report]

Responsibility for the financial information of the Disposal Entity is that of the directors of the Issuer. This includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. [Main Board Listing Rules 14.68(2)(a)(i) / GEM Listing Rules 19.68(2)(a)(i)] requires the financial information to be prepared by the directors of the Issuer using accounting policies of the Issuer and must contain at least the income statement, balance sheet, cash flow statement and statement of changes in equity. The directors are responsible for determining the adequacy of additional notes contained in the circular. [As part of our review, we will request written representations from management concerning assertions made in connection with the review.]

A review of the financial information does not provide assurance that we will become aware of all significant matters that might be identified in an audit. Further, our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

⁶ According to Main Board Listing Rules 14.68(2)(a)(i) / GEM Listing Rules 19.68(2)(a)(i), the financial information must be prepared by the directors of the listed issuer and reviewed by the listed issuer's auditor or reporting accountant.

⁷ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

⁸ Practitioners may consider it appropriate to clarify to whom they are responsible here 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".

REVIEW OF FINANCIAL INFORMATION UNDER THE HONG KONG LISTING RULES
FOR A VERY SUBSTANTIAL DISPOSAL

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information we request in connection with our review.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our review of the financial information.

Yours faithfully,

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

We agree to the terms of this letter.

(signed)

.....
Director, for and on behalf of the Board of [name of the listed issuer]

Date

Appendix 2

Examples of Review Reports on Financial Information Included in a VSD Circular

- Illustration 1: A review report for an engagement conducted in accordance with HKSRE 2400 (Revised).
- Illustration 2: A review report for an engagement conducted in accordance with HKSRE 2410.

Illustration 1: A review report for an engagement conducted in accordance with HKSRE 2400 (Revised)

Independent Practitioner's Review Report on the Financial Information of the Disposal Entity

To the Board of Directors of [Name of the listed issuer]

We have reviewed the financial information set out on pages to which comprise the [balance sheets][statements of financial position]⁹ of ABC Entity (the "Disposal Entity") as of [respective reporting period end dates] and the [income statements][statements of comprehensive income]⁹, statements of changes in equity and [cash flows statements][statements of cash flows]⁹ for each of the periods then ended and explanatory notes (the "financial information"). The financial information has been prepared solely for the purpose of inclusion in the circular to be issued by [name of the listed issuer] (the "Issuer") in connection with the disposal of ABC Entity in accordance with the [Main Board Listing Rule 14.68(2)(a)(i)(A)][GEM Listing Rule 19.68(2)(a)(i)(A)].¹⁰

Directors' Responsibility for the Financial Information

The directors of the Issuer are responsible for the preparation and presentation of the financial information of the Disposal Entity in accordance with the basis of preparation set out in note X to the financial information and [Main Board Listing Rule 14.68(2)(a)(i)][GEM Listing Rule 19.68(2)(a)(i)]. The directors are also responsible for such internal control as management determines is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error. [The financial information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1, *Presentation of Financial Statements* or an interim financial report as defined in Hong Kong Accounting Standard 34, *Interim Financial Reporting* issued by Hong Kong Institute of Certified Public Accountants.]

Practitioner's Responsibility

Our responsibility is to express a conclusion on this financial information.¹¹ We conducted our review in accordance with Hong Kong Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements* and with reference to Practice Note 750, *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal* issued by the Hong Kong Institute of Certified Public Accountants. HKSRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the financial information, taken as a whole, is not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

⁹ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

¹⁰ In circumstances when the financial information has been presented in accordance with Main Board Listing Rule 14.68(2)(a)(i)(B) / GEM Listing Rule 19.68(2)(a)(i)(B), this paragraph would be worded as follows: "We have reviewed the financial information set out on pages to which comprise the balance sheets of [name of the listed issuer] (the "Issuer") as of [respective balance sheet dates] and the income statements, statements of changes in equity and cash flows statements for each of the periods then ended and explanatory notes (the "financial information"). The financial information has been prepared solely for the purpose of inclusion in the circular to be issued by the Issuer in connection with the disposal of ABC Entity (the "Disposal Entity") in accordance with the [Main Board Listing Rule 14.68(2)(a)(i)(B)][GEM Listing Rule 19.68(2)(a)(i)(B)]."

¹¹ Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report 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".

REVIEW OF FINANCIAL INFORMATION UNDER THE HONG KONG LISTING RULES
FOR A VERY SUBSTANTIAL DISPOSAL

A review of financial information in accordance with HKSRE 2400 (Revised) is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with Hong Kong Standards on Auditing. Accordingly, we do not express an audit opinion on this financial information.

*Conclusion*¹²

Based on our review, nothing has come to our attention that causes us to believe that the financial information of the Disposal Entity for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note X to the financial information.

XYZ & Co.

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

Date

Address

¹² For example modified reports, the practitioners may refer to Illustrations 2 to 5 of Appendix 2 in HKSRE 2400 (Revised) for guidance.

Illustration 2: A review report for an engagement conducted in accordance with HKSRE 2410

Report on Review of Financial Information of the Disposal Entity

To the Board of Directors of [Name of the listed issuer]

Introduction

We have reviewed the financial information set out on pages to which comprise the [balance sheets][statements of financial position]¹³ of ABC Entity (the “Disposal Entity”) as of [respective reporting period end dates] and the [income statements][statements of comprehensive income]¹³, statements of changes in equity and [cash flows statements][statements of cash flows]¹³ for each of the periods then ended and explanatory notes (the “financial information”). The financial information has been prepared solely for the purpose of inclusion in the circular to be issued by [name of the listed issuer] (the “Issuer”) in connection with the disposal of ABC Entity in accordance with the [Main Board Listing Rule 14.68(2)(a)(i)(A)][GEM Listing Rule 19.68(2)(a)(i)(A)].¹⁴

The directors of the Issuer are responsible for the preparation and presentation of the financial information of the Disposal Entity in accordance with the basis of preparation set out in note X to the financial information and [Main Board Listing Rule 14.68(2)(a)(i)][GEM Listing Rule 19.68(2)(a)(i)]. The directors are also responsible for such internal control as management determines is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error. [The financial information does not contain sufficient information to constitute a complete set of financial statements as defined in Hong Kong Accounting Standard 1, *Presentation of Financial Statements* or an interim financial report as defined in Hong Kong Accounting Standard 34, *Interim Financial Reporting* issued by Hong Kong Institute of Certified Public Accountants.] Our responsibility is to express a conclusion on this financial information based on our review.¹⁵

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* and with reference to Practice Note 750, *Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal* issued by the Hong Kong Institute of Certified Public Accountants. A review of the financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

¹³ Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

¹⁴ In circumstances when the financial information has been presented in accordance with Main Board Listing Rule 14.68(2)(a)(i)(B)/ GEM Listing Rule 19.68(2)(a)(i)(B), this paragraph would be worded as follows: “We have reviewed the financial information set out on pages to which comprise the balance sheets of [name of the listed issuer] (the “Issuer”) as of [respective balance sheet dates] and the income statements, statements of changes in equity and cash flows statements for each of the periods then ended and explanatory notes (the “financial information”). The financial information has been prepared solely for the purpose of inclusion in the circular to be issued by the Issuer in connection with the disposal of ABC Entity (the “Disposal Entity”) in accordance with the [Main Board Listing Rule 14.68(2)(a)(i)(B)][GEM Listing Rule 19.68(2)(a)(i)(B)].”

¹⁵ Practitioners may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report 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”.

REVIEW OF FINANCIAL INFORMATION UNDER THE HONG KONG LISTING RULES
FOR A VERY SUBSTANTIAL DISPOSAL

*Conclusion*¹⁶

Based on our review, nothing has come to our attention that causes us to believe that the financial information of the Disposal Entity for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note X to the financial information.

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

¹⁶ For example modified reports, the practitioners may refer to Appendices 5 to 7 of HKSRE 2410 for guidance.

Appendix 3

Summary of Relevant Main Board Listing Rules and GEM Listing Rules

Below is a summary of the Main Board Listing Rules and GEM Listing Rules that are referred to in the body of this PN and that are effective at the date of issuance of this PN. This summary is broadly replicated from the Main Board Listing Rules and the GEM Listing Rules are broadly aligned to the Main Board Listing Rules.

In all cases, auditors should refer to Chapter 14 of the Main Board Listing Rules / Chapter 19 of GEM Listing Rules for the original rules in respect of a very substantial disposal, and note that The Stock Exchange of Hong Kong Limited may update these Rules from time to time.

Main Board Listing Rules / GEM Listing Rules

Definitions

- 14.04 / 19.04 For the purposes of this Chapter:—
-
- 14.04 (6) a “listed issuer” means a company or other legal person whose securities are already listed on the Main Board, including a company whose shares are represented by listed depositary receipts, and unless the context otherwise requires, includes its subsidiaries;
- 19.04 (6) a “listed issuer” means a company or other legal person whose securities are already listed on GEM and, unless the context otherwise requires, includes its subsidiaries;
- 14.04 / 19.04 (7) a “notifiable transaction” means a transaction classified as a share transaction, discloseable transaction, major transaction, very substantial disposal, very substantial acquisition or reverse takeover under Main Board Listing Rule 14.06 / GEM Listing Rule 19.06;
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Classification and explanation of terms

-
- 14.06 / 19.06 The transaction classification is made by using the percentage ratios set out in Main Board Listing Rule 14.07 / GEM Listing Rule 19.07. The classifications are:—
-
- (4) very substantial disposal — a disposal or a series of disposals (aggregated under Main Board Listing Rules 14.22 and 14.23 / GEM Listing Rules 19.22 and 19.23) of assets (including deemed disposals referred to in Main Board Listing Rule 14.29 / GEM Listing Rule 19.29) by a listed issuer where any percentage ratio is 75% or more;
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Contents of circulars

General principles

- 14.63 / 19.63 A circular for a major transaction, very substantial disposal or very substantial acquisition and a listing document for a reverse takeover sent by a listed issuer to holders of its listed securities must:—
- (1) provide a clear, concise and adequate explanation of its subject matter having regard to the provisions of Main Board Listing Rule 2.13 / GEM Listing Rule 17.56; and
 - (2) if voting or shareholders' approval is required:
 - (a) contain all information necessary to allow the holders of the securities to make a properly informed decision;
 - (b) contain a heading emphasising the importance of the document and advising holders of securities, who are in any doubt as to what action to take, to consult appropriate independent advisers;
 - (c) contain a recommendation from the directors as to the voting action that shareholders should take, indicating whether or not the proposed transaction described in the circular is, in the opinion of the directors, fair and reasonable and in the interests of the shareholders as a whole; and
 - (d) contain a statement that any shareholder with a material interest in a proposed transaction and his associates will abstain from voting on resolution(s) approving that transaction; and
 - (3) a confirmation that, to the best of the directors' knowledge, information and belief having made all reasonable enquiry, the counterparty and the ultimate beneficial owner of the counterparty are third parties independent of the listed issuer and connected persons of the listed issuer.

.....

Very substantial disposal circulars

- 14.68 / 19.68 A circular issued in relation to a very substantial disposal must contain:—
- (1) the information required under Main Board Listing Rules 14.66 and 14.70 / GEM Listing Rules 19.66 and 19.70;
 - (2) (a) on a disposal of a business, company or companies:
 - (i) financial information of either:
 - (A) the business, company or companies being disposed of; or
 - (B) the listed issuer's group with the business, company or companies being disposed of shown separately as (a) disposal group(s) or (a) discontinuing operation(s),

for the relevant period (as defined in the note to Main Board Listing Rule 4.06(1)(a) / GEM Listing Rule 7.05(1)(a)). The financial information must be prepared by the directors of the listed issuer using accounting policies of the listed issuer and must contain at least the income statement, balance sheet, cash flow statement and statement of changes in equity.

The financial information must be reviewed by the listed issuer's auditors or reporting accountants according to the relevant standards published by the Hong Kong Institute of Certified Public Accountants or the International Auditing and Assurance Standards Board of the International Federation of Accountants or the China Auditing Standards Board of the China Ministry of Finance. The circular must contain a statement that the financial information has been reviewed by the issuer's auditors or reporting accountants and details of any qualifications or modifications in the review report; and

Notes: 1. The listed issuer may include an accountants' report instead of a review by its auditors or reporting accountants. In that case, the accountants' report must comply with Chapter 4 of the Main Board Listing Rules / Chapter 7 of the GEM Listing Rules.

2. The Exchange may be prepared to relax the requirements in this rule if the assets of the company or companies being disposed of are not consolidated in the issuer's accounts before the disposal.

- (ii) pro forma income statement, balance sheet and cash flow statement of the remaining group on the same accounting basis. The pro forma financial information must comply with Chapter 4 of the Main Board Listing Rules / Chapter 7 of the GEM Listing Rules;
- (b) on a disposal of any revenue-generating assets (other than a business or company) with an identifiable income stream or assets valuation:
- (i) a profit and loss statement and valuation (where available) for the 3 preceding financial years (or less, where the asset has been held by the listed issuer for a shorter period) on the identifiable net income stream and valuation in relation to such assets which must be reviewed by the auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records. The financial information on which the profit and loss statement is based must relate to a financial period ended 6 months or less before the circular is issued; and
 - (ii) a pro forma profit and loss statement and net assets statement on the remaining group on the same accounting basis. The pro forma financial information must comply with Chapter 4 of the Main Board Listing Rules / Chapter 7 of the GEM Listing Rules;