

MEMBERS' HANDBOOK

Update No. 253

(Issued 29 December 2020)

VOLUME I

<i>Document Reference and Title</i>	<i>Instructions</i>	<i>Explanations</i>
Contents of Volume I	Discard existing page i and replace with the revised page i.	Revised contents page

PROFESSIONAL ETHICS

Code of Ethics for Professional Accountants, Chapter A, Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants	Insert after Code of Ethics for Professional Accountants, Chapter A Part 4B, <i>Independence for Assurance Engagements Other Than Audit and Review Engagements.</i>	Note 1
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VOLUME III

<i>Document Reference and Title</i>	<i>Instructions</i>	<i>Explanations</i>
Contents of Volume III	Discard existing page iv and replace with the revised page iv.	Revised contents page

PRACTICE NOTES

PN 730 (Revised) Guidance for Auditors Regarding Preliminary Announcements of Results	Discard PN 730 (Revised) revised in March 2017 and replace with the attached PN 730 (Revised).	Note 2
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Notes:

- Amendments as a result of the International Ethics Standards Board for Accountants' Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants to better promote the role and mindset expected of all professional accountants.

The revisions explicitly recognise that the accountancy profession is entrusted with public confidence in the wide-ranging roles it plays in society and that such confidence is based on the skills and values it brings to its professional activities. Importantly, they reaffirm the profession's responsibility to act in the public interest and the fundamental role of the Code in meeting that responsibility.

Among other matters, the revisions:

- Reinforce aspects of the principles of integrity, objectivity and professional behavior
- Raise behavioral expectations of all professional accountants through requiring them to have an inquiring mind as they undertake their professional activities
- Emphasize the importance of accountants being aware of the potential influence of bias in their judgments and decisions
- Highlight the supportive role the right organizational culture can play in promoting ethical conduct and business

The “role and mindset” revisions will become effective on 31 December 2021.

2. PN 730 (Revised) is revised to align with the latest regulatory requirements and provide additional guidance on the following:

- When a complete set of financial statements together with the auditor’s report are included in the “preliminary” announcement of results, no separate reporting on the agreement of the preliminary announcement of results with auditors would be necessary
- Where the announcement of results is based on audited financial statements, it is acceptable for the listed issuer not to mention “preliminary” in the headline of the announcement and when describing the results of the financial year
- Guidance to auditors when the listed issuer publishes the preliminary announcement of results without obtaining its auditor’s agreement, for example, the audit is not in an advanced stage

The revisions are effective upon issuance.

In order for readers to easily identify all the changes, a marked-up version is posted at: https://www.hkicpa.org.hk/-/media/Document/SSD/update/changes_update253.pdf



MEMBERS' HANDBOOK CONTENTS OF VOLUME I

(Updated to December 2020)

		<i>Issue/Review date</i>
1.1	PROFESSIONAL ACCOUNTANTS ORDINANCE, BY-LAWS, RULES, GUIDELINES	
CAP.50	Professional Accountants Ordinance	3/14
CAP.50A	Professional Accountants By-laws	3/14
1.101	Disciplinary Committee Proceedings Rules	2/19
1.101A	Guidelines for the Chairman and the Committee on Administering the Disciplinary Committee Proceedings Rules	2/19
1.102 (Jan 2019)	Corporate Practices (Registration) Rules	12/18
1.102 (sch.) (Jan 2019)	Schedule to the Corporate Practices (Registration) Rules "Corporate Practices (Model Articles of Association)"	12/18
1.103	Corporate Practices (Professional Indemnity) Rules	10/16
1.2	PROFESSIONAL ETHICS	
COE (Revised 2018)	Code of Ethics for Professional Accountants	7/20
COE Chapter A Part 4B	Independence for Assurance Engagements Other than Audit and Review Engagements	5/20
COE Chapter A	Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants	12/20
1.3	GENERAL GUIDANCE	
1.300	Explanatory Foreword	9/04
1.301	Books and Papers - Ownership, Disclosure and Lien	9/04
1.302	Formation of Companies by Accountants	4/85
1.303	Restrictions on Appointments as Secretaries and Directors of Audit Clients ...	5/15
1.304	Arrangements to Cover the Incapacity or Death of a Sole Practitioner	9/04
1.305	Direct Professional Access	9/04
1.306	Guidance on Reasonable Steps to be Taken for PII Purposes	8/96
1.307	Production of Audit Working Papers to the Securities and Futures Commission under section 179 of the Securities and Futures Ordinance	9/04

Code of Ethics for Professional Accountants
Chapter A

Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants

This pronouncement only includes areas in the Code of Ethics for Professional Accountants (Revised 2018)(Code) requiring revisions, without re-producing the entire Code. In this pronouncement, additions or deletions to the extant Code are underlined or strikethrough; texts in the extant Code relocated to another location are double-underlined or double-strikethrough.



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REVISIONS TO THE CODE TO PROMOTE THE ROLE AND MINDSET EXPECTED OF PROFESSIONAL ACCOUNTANTS

CONTENTS

MARK-UP FROM EXTANT VERSION	4
SECTION 100	4
SECTION 110	7
SUBSECTION 111 – INTEGRITY	8
SUBSECTION 112 – OBJECTIVITY	9
SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE	9
SUBSECTION 114 – CONFIDENTIALITY	10
SUBSECTION 115 – PROFESSIONAL BEHAVIOR	11
SECTION 120	13
SECTION 200	22
SECTION 220	23
GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS	25
EFFECTIVE DATE	27

MARK-UP FROM EXTANT VERSION

PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

SECTION 100

COMPLYING WITH THE CODE

Introduction~~General~~

100.1-A4 A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. ~~A professional accountant's responsibility is not exclusively to satisfy the needs of an individual client or employing organization. Therefore, the Code contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.~~

100.2 Confidence in the accountancy profession is a reason why businesses, governments and other organizations involve professional accountants in a broad range of areas, including financial and corporate reporting, assurance and other professional activities. Accountants understand and acknowledge that such confidence is based on the skills and values that accountants bring to the professional activities they undertake, including:

- (a) Adherence to ethical principles and professional standards;
- (b) Use of business acumen;
- (c) Application of expertise on technical and other matters; and
- (d) Exercise of professional judgment.

The application of these skills and values enables accountants to provide advice or other output that meets the purpose for which it was provided, and which can be relied upon by the intended users of such output.

100.3 Pursuant to section 18A of the Professional Accountants Ordinance, the Institute's Council may, in relation to the practice of accountancy, issue or specify any statement of professional ethics required to be observed, maintained or otherwise applied by members of HKICPA (members). The Code sets out high quality standards of ethical behavior expected of professional accountants.

100.4 The Code establishes five fundamental principles to be complied with by all professional accountants. It also includes a conceptual framework that sets out the approach to be taken to identify, evaluate and address threats to compliance with those fundamental principles and, for audits and other assurance engagements, threats to independence. The Code also applies the fundamental principles and the conceptual framework to a range of facts and circumstances that accountants might encounter, whether in business or in public practice.

Requirements and Application Material

100.52 A1 The requirements in the Code, designated with the letter "R," impose obligations.

100.52 A2 Application material, designated with the letter "A," provides context, explanations, suggestions for actions or matters to consider, illustrations and other guidance relevant to a proper understanding of the Code. In particular, the application

material is intended to help a professional accountant to understand how to apply the conceptual framework to a particular set of circumstances and to understand and comply with a specific requirement. While such application material does not of itself impose a requirement, consideration of the material is necessary to the proper application of the requirements of the Code, including application of the conceptual framework.

~~R100.63~~ A professional accountant shall comply with the Code. ~~There might be circumstances where laws or regulations preclude an accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.~~

~~100.6 A1~~ Upholding the fundamental principles and compliance with the specific requirements of the Code enable professional accountants to meet their responsibility to act in the public interest.

~~100.6 A2~~ Complying with the Code includes giving appropriate regard to the aim and intent of the specific requirements.

~~100.6 A3~~ Compliance with the requirements of the Code does not mean that professional accountants will have always met their responsibility to act in the public interest. There might be unusual or exceptional circumstances in which an accountant believes that complying with a requirement or requirements of the Code might not be in the public interest or would lead to a disproportionate outcome. In those circumstances, the accountant is encouraged to consult with an appropriate body such as a professional or regulatory body.

~~100.6 A4~~ In acting in the public interest, a professional accountant's considers not only the preferences or requirements responsibility is not exclusively to satisfy the needs of an individual client or employing organization, but also the interests of other stakeholders when performing professional activities. Therefore, the Code contains requirements and application material to enable professional accountants to meet their responsibility to act in the public interest.

~~R100.7~~ There might be there are circumstances where laws or regulations preclude an professional accountant from complying with certain parts of the Code. In such circumstances, those laws and regulations prevail, and the accountant shall comply with all other parts of the Code.

~~100.73~~ A1 The principle of professional behavior requires a professional accountant to comply with relevant laws and regulations. Some jurisdictions might have provisions that differ from or go beyond those set out in the Code. Accountants in those jurisdictions need to be aware of those differences and comply with the more stringent provisions unless prohibited by law or regulation.

~~100.3 A2~~ A professional accountant might encounter unusual circumstances in which the accountant believes that the result of applying a specific requirement of the Code would be disproportionate or might not be in the public interest. In those circumstances, the accountant is encouraged to consult with a professional or regulatory body.

Breaches of the Code

R100.84 Paragraphs R400.80 to R400.89 and R900.50 to R900.55 address a breach of *Independence Standards*. A professional accountant who identifies a breach of any other provision of the Code shall evaluate the significance of the breach and its impact on the accountant's ability to comply with the fundamental principles. The accountant shall also:

- (a) Take whatever actions might be available, as soon as possible, to address the consequences of the breach satisfactorily; and
- (b) Determine whether to report the breach to the relevant parties.

100.84 A1 Relevant parties to whom such a breach might be reported include those who might have been affected by it, a professional or regulatory body or an oversight authority.

SECTION 110

THE FUNDAMENTAL PRINCIPLES

General

- 110.1 A1 There are five fundamental principles of ethics for professional accountants:
- (a) Integrity – to be straightforward and honest in all professional and business relationships.
 - (b) Objectivity – ~~not to compromise~~exercise professional or business judgments without being compromised by~~because of~~:
 - (i) ~~b~~Bias;
 - (ii) ~~e~~Conflict of interest; or
 - (iii) ~~u~~Undue influence of others, or undue reliance on, individuals, organizations, technology or other factors.
 - (c) Professional Competence and Due Care – to:
 - (i) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - (ii) Act diligently and in accordance with applicable technical and professional standards.
 - (d) Confidentiality – to respect the confidentiality of information acquired as a result of professional and business relationships.
 - (e) Professional Behavior – to:
 - (i) ~~e~~Comply with relevant laws and regulations~~and~~;
 - (ii) Behave in a manner consistent with the profession's responsibility to act in the public interest in all professional activities and business relationships; and
 - (iii) ~~a~~Avoid any conduct that the professional accountant knows or should know might discredit the profession.
- R110.2** A professional accountant shall comply with each of the fundamental principles.
- 110.2 A1 The fundamental principles of ethics establish the standard of behavior expected of a professional accountant. The conceptual framework establishes the approach which an accountant is required to apply ~~to assist~~ in complying with those fundamental principles. Subsections 111 to 115 set out requirements and application material related to each of the fundamental principles.

110.2 A2 A professional accountant might face a situation in which complying with one fundamental principle conflicts with complying with one or more other fundamental principles. In such a situation, the accountant might consider consulting, on an anonymous basis if necessary, with:

- Others within the firm or employing organization.
- Those charged with governance.
- A professional body.
- A regulatory body.
- Legal counsel.

However, such consultation does not relieve the accountant from the responsibility to exercise professional judgment to resolve the conflict or, if necessary, and unless prohibited by law or regulation, disassociate from the matter creating the conflict.

110.2 A3 The professional accountant is encouraged to document the substance of the issue, the details of any discussions, the decisions made and the rationale for those decisions.

SUBSECTION 111 – INTEGRITY

R111.1 A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships.

111.1 A1 Integrity ~~implies~~ involves fair dealing ~~and~~, truthfulness ~~and~~ having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences.

111.1 A2 Acting appropriately involves:

(a) Standing one's ground when confronted by dilemmas and difficult situations;
or

(b) Challenging others as and when circumstances warrant,

in a manner appropriate to the circumstances.

R111.2 A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information provided recklessly; or
- (c) Omits or obscures required information where such omission or obscurity would be misleading.

111.2 A1 If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2.

- R111.3** When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information.

SUBSECTION 112 – OBJECTIVITY

- R112.1** A professional accountant shall comply with the principle of objectivity, which requires an accountant ~~not to compromise~~exercise professional or business judgment without being compromised by~~because of~~:

- (a) ~~b~~Bias;
- (b) ~~e~~Conflict of interest; or
- (c) ~~u~~Undue influence of others, or undue reliance on, individuals, organizations, technology or other factors.

- R112.2** A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity.

SUBSECTION 113 – PROFESSIONAL COMPETENCE AND DUE CARE

- R113.1** A professional accountant shall comply with the principle of professional competence and due care, which requires an accountant to:

- (a) Attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organization receives competent professional service, based on current technical and professional standards and relevant legislation; and
- (b) Act diligently and in accordance with applicable technical and professional standards.

- 113.1 A1 Serving clients and employing organizations with professional competence requires the exercise of sound judgment in applying professional knowledge and skill when undertaking professional activities.

- 113.1 A2 Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional ~~and~~, business and technology-related developments. Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment.

- 113.1 A3 Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis.

- R113.2** In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision.

- R113.3** Where appropriate, a professional accountant shall make clients, the employing organization, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities.

SUBSECTION 114 – CONFIDENTIALITY

R114.1 A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships. An accountant shall:

- (a) Be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) Maintain confidentiality of information within the firm or employing organization;
- (c) Maintain confidentiality of information disclosed by a prospective client or employing organization;
- (d) Not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organization without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) Not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
- (f) Not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- (g) Take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality.

114.1 A1 Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organization to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- (a) Disclosure is required by law, for example:
 - (i) Production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) Disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) Disclosure is permitted by law and is authorized by the client or the employing organization; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) To comply with the quality review of a professional body;
 - (ii) To respond to an inquiry or investigation by a professional or regulatory body;
 - (iii) To protect the professional interests of a professional accountant in legal proceedings; or

- (iv) To comply with technical and professional standards, including ethics requirements.

114.1 A2 In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- Whether the interests of any parties, including third parties whose interests might be affected, could be harmed if the client or employing organization consents to the disclosure of information by the professional accountant.
- Whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - Unsubstantiated facts.
 - Incomplete information.
 - Unsubstantiated conclusions.
- The proposed type of communication, and to whom it is addressed.
- Whether the parties to whom the communication is addressed are appropriate recipients.

R114.2 A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organization. When changing employment or acquiring a new client, the accountant is entitled to use prior experience but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship.

Additional requirements are set out in Section 400 “Unlawful Acts or Defaults by Clients of Members” and Section 500 “Unlawful Acts or Defaults by or on Behalf of a Member’s Employer” under Chapter C of the Code.

SUBSECTION 115 – PROFESSIONAL BEHAVIOR

R115.1 A professional accountant shall comply with the principle of professional behavior, which requires an accountant to:

- (a)** ~~Comply with relevant laws and regulations and;~~
- (b)** Behave in a manner consistent with the profession’s responsibility to act in the public interest in all professional activities and business relationships;
and
- (c)** ~~Avoid any conduct that the accountant knows or should know might discredit the profession.~~

A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles.

115.1 A1 Conduct that might discredit the profession includes conduct that a reasonable and informed third party would be likely to conclude adversely affects the good reputation of the profession.

REVISIONS TO THE CODE TO PROMOTE
THE ROLE AND MINDSET EXPECTED OF PROFESSIONAL ACCOUNTANTS

- R115.2** When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:
- (a)** Exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or
 - (b)** Disparaging references or unsubstantiated comparisons to the work of others.
- 115.2 A1 If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body.

Additional requirements are set out in Section 800 “Use of Designations and Institute’s Logo” and Section 900 “Practice Promotion” under Chapter C of the Code.

SECTION 120

THE CONCEPTUAL FRAMEWORK

Introduction

- 120.1 The circumstances in which professional accountants operate might create threats to compliance with the fundamental principles. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code.
- 120.2 The conceptual framework specifies an approach for a professional accountant to:
- (a) Identify threats to compliance with the fundamental principles;
 - (b) Evaluate the threats identified; and
 - (c) Address the threats by eliminating or reducing them to an acceptable level.

Requirements and Application Material

General

- R120.3** The professional accountant shall apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles set out in Section 110.
- 120.3 A1 Additional requirements and application material that are relevant to the application of the conceptual framework are set out in:
- (a) Part 2 – *Professional Accountants in Business*;
 - (b) Part 3 – *Professional Accountants in Public Practice*; and
 - (c) *Independence Standards*, as follows:
 - (i) Part 4A – *Independence for Audit and Review Engagements*; and
 - (ii) Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.
- R120.4** When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

- R120.5** When applying the conceptual framework, the professional accountant shall:
- (a)** Have an inquiring mind;
 - (ab)** Exercise professional judgment; and
 - ~~**(b)** Remain alert for new information and to changes in facts and circumstances;~~
~~and~~
 - (c)** Use the reasonable and informed third party test described in paragraph 120.5 A64.

Having an Inquiring Mind

120.5 A12 ~~An inquiring mind is a prerequisite to obtaining An understanding of known facts and circumstances is a prerequisite to necessary for the proper application of the conceptual framework. Determining the actions necessary to obtain this understanding and coming to a conclusion about whether the fundamental principles have been complied with also require the exercise of professional judgment. Having an inquiring mind involves:~~

- (a) Considering the source, relevance and sufficiency of information obtained, taking into account the nature, scope and outputs of the professional activity being undertaken; and
- (b) Being open and alert to a need for further investigation or other action.

120.5 A2 When considering the source, relevance and sufficiency of information obtained, the professional accountant might consider, among other matters, whether:

- New information has emerged or there have been changes in facts and circumstances.
- The information or its source might be influenced by bias or self-interest.
- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- There is an inconsistency between the known facts and circumstances and the accountant's expectations.
- The information provides a reasonable basis on which to reach a conclusion.
- There might be other reasonable conclusions that could be reached from the available information obtained.

120.5 A3 Paragraph R120.5 requires all professional accountants to have an inquiring mind when identifying, evaluating and addressing threats to the fundamental principles. This prerequisite for applying the conceptual framework applies to all accountants regardless of the professional activity undertaken. Under auditing, review and other assurance standards, including those issued by the IAASB, accountants are also required to exercise professional skepticism, which includes a critical assessment of evidence.

Exercising of Professional Judgment

120.5 A44 Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances,

~~including~~ taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

~~120.5 A5~~ ~~In relation to undertaking professional activities, the exercise of p~~Professional judgment is required when the professional accountant applies the conceptual framework in order to make informed decisions about the courses of actions available, and to determine whether such decisions are appropriate in the circumstances. In making this determination, the accountant might consider matters such as whether:

~~120.5 A3~~ ~~In exercising professional judgment to obtain this understanding, the professional accountant might consider, among other matters, whether:~~

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the accountant.
- ~~There is an inconsistency between the known facts and circumstances and the accountant's expectations.~~
- The accountant's expertise and experience are sufficient to reach a conclusion.
- There is a need to consult with others with relevant expertise or experience.
- ~~The information provides a reasonable basis on which to reach a conclusion.~~
- The accountant's own preconception or bias might be affecting the accountant's exercise of professional judgment.
- ~~There might be other reasonable conclusions that could be reached from the available information.~~

Reasonable and Informed Third Party

120.5 A64 The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

Identifying Threats

R120.6 The professional accountant shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance. The existence of certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that can enhance the accountant acting ethically might also help identify threats to compliance with the fundamental principles. Paragraph 120.8 A2 includes general examples of such conditions, policies and procedures which are also factors that are relevant in evaluating the level of threats.

- 120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.
- 120.6 A3 Threats to compliance with the fundamental principles fall into one or more of the following categories:
- (a) Self-interest threat – the threat that a financial or other interest will inappropriately influence a professional accountant’s judgment or behavior;
 - (b) Self-review threat – the threat that a professional accountant will not appropriately evaluate the results of a previous judgment made¹, or an activity performed by the accountant⁷, or by another individual within the accountant’s firm or employing organization, on which the accountant will rely when forming a judgment as part of performing a current activity;
 - (c) Advocacy threat – the threat that a professional accountant will promote a client’s or employing organization’s position to the point that the accountant’s objectivity is compromised;
 - (d) Familiarity threat – the threat that due to a long or close relationship with a client, or employing organization, a professional accountant will be too sympathetic to their interests or too accepting of their work; and
 - (e) Intimidation threat – the threat that a professional accountant will be deterred from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence over the accountant.
- 120.6 A4 A circumstance might create more than one threat, and a threat might affect compliance with more than one fundamental principle.

Evaluating Threats

- R120.7** When the professional accountant identifies a threat to compliance with the fundamental principles, the accountant shall evaluate whether such a threat is at an acceptable level.

Acceptable Level

- 120.7 A1 An acceptable level is a level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant complies with the fundamental principles.

Factors Relevant in Evaluating the Level of Threats

- 120.8 A1 The consideration of qualitative as well as quantitative factors is relevant in the professional accountant’s evaluation of threats, as is the combined effect of multiple threats, if applicable.
- 120.8 A2 The existence of conditions, policies and procedures described in paragraph 120.6 A1 might also be factors that are relevant in evaluating the level of threats to compliance with the fundamental principles. Examples of such conditions, policies and procedures include:
- Corporate governance requirements.
 - Educational, training and experience requirements for the profession.

- Effective complaint systems which enable the professional accountant and the general public to draw attention to unethical behavior.
- An explicitly stated duty to report breaches of ethics requirements.
- Professional or regulatory monitoring and disciplinary procedures.

Consideration of New Information or Changes in Facts and Circumstances

R120.9 If the professional accountant becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant shall re-evaluate and address that threat accordingly.

120.9 A1 Remaining alert throughout the professional activity assists the professional accountant in determining whether new information has emerged or changes in facts and circumstances have occurred that:

- (a) Impact the level of a threat; or
- (b) Affect the accountant's conclusions about whether safeguards applied continue to be appropriate to address identified threats.

120.9 A2 If new information results in the identification of a new threat, the professional accountant is required to evaluate and, as appropriate, address this threat. (Ref: Paras. R120.7 and R120.10).

Addressing Threats

R120.10 If the professional accountant determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the accountant shall address the threats by eliminating them or reducing them to an acceptable level. The accountant shall do so by:

- (a) Eliminating the circumstances, including interests or relationships, that are creating the threats;
- (b) Applying safeguards, where available and capable of being applied, to reduce the threats to an acceptable level; or
- (c) Declining or ending the specific professional activity.

Actions to Eliminate Threats

120.10 A1 Depending on the facts and circumstances, a threat might be addressed by eliminating the circumstance creating the threat. However, there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

Safeguards

120.10 A2 Safeguards are actions, individually or in combination, that the professional accountant takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.

Consideration of Significant Judgments Made and Overall Conclusions Reached

R120.11 The professional accountant shall form an overall conclusion about whether the actions that the accountant takes, or intends to take, to address the threats created will eliminate those threats or reduce them to an acceptable level. In forming the overall conclusion, the accountant shall:

- (a) Review any significant judgments made or conclusions reached; and
- (b) Use the reasonable and informed third party test.

Other Considerations when Applying the Conceptual Framework

Bias

120.12 A1 Conscious or unconscious bias affects the exercise of professional judgment when identifying, evaluating and addressing threats to compliance with the fundamental principles.

120.12 A2 Examples of potential bias to be aware of when exercising professional judgment include:

- Anchoring bias, which is a tendency to use an initial piece of information as an anchor against which subsequent information is inadequately assessed.
- Automation bias, which is a tendency to favor output generated from automated systems, even when human reasoning or contradictory information raises questions as to whether such output is reliable or fit for purpose.
- Availability bias, which is a tendency to place more weight on events or experiences that immediately come to mind or are readily available than on those that are not.
- Confirmation bias, which is a tendency to place more weight on information that corroborates an existing belief than information that contradicts or casts doubt on that belief.
- Groupthink, which is a tendency for a group of individuals to discourage individual creativity and responsibility and as a result reach a decision without critical reasoning or consideration of alternatives.
- Overconfidence bias, which is a tendency to overestimate one's own ability to make accurate assessments of risk or other judgments or decisions.
- Representation bias, which is a tendency to base an understanding on a pattern of experiences, events or beliefs that is assumed to be representative.
- Selective perception, which is a tendency for a person's expectations to influence how the person views a particular matter or person.

120.12 A3 Actions that might mitigate the effect of bias include:

- Seeking advice from experts to obtain additional input.
- Consulting with others to ensure appropriate challenge as part of the evaluation process.

- Receiving training related to the identification of bias as part of professional development.

Organizational Culture

120.13 A1 The effective application of the conceptual framework by a professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the accountant's organization.

120.13 A2 The promotion of an ethical culture within an organization is most effective when:

- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organization;
- (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
- (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and
- (d) The organization adheres to ethical values in its dealings with third parties.

120.13 A3 Professional accountants are expected to encourage and promote an ethics-based culture in their organization, taking into account their position and seniority.

Considerations for Audits, Reviews and Other Assurance and Related Services Engagements

Firm Culture

120.14 A1 HKSQM* 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

Independence

120.15~~2~~ A1 Professional accountants in public practice are required by *Independence Standards* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional skepticism has been compromised.

* To be issued

120.152 A2 *Independence Standards* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Professional accountants and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

Professional Skepticism

120.163 A1 Under auditing, review and other assurance standards, including those issued by the Institute, professional accountants in public practice are required to exercise professional skepticism when planning and performing audits, reviews and other assurance engagements. Professional skepticism and the fundamental principles that are described in Section 110 are inter-related concepts.

120.163 A2 In an audit of financial statements, compliance with the fundamental principles, individually and collectively, supports the exercise of professional skepticism, as shown in the following examples:

- *Integrity* requires the professional accountant to be straightforward and honest. For example, the accountant complies with the principle of integrity by:
 - ~~(a)~~ — Being straightforward and honest when raising concerns about a position taken by a client; ~~and~~
 - ~~(b)~~ — Pursuing inquiries about inconsistent information and seeking further audit evidence to address concerns about statements that might be materially false or misleading in order to make informed decisions about the appropriate course of action in the circumstances.
 - Having the strength of character to act appropriately, even when facing pressure to do otherwise or when doing so might create potential adverse personal or organizational consequences. Acting appropriately involves:
 - (a) Standing one's ground when confronted by dilemmas and difficult situations; or
 - (b) Challenging others as and when circumstances warrant,
in a manner appropriate to the circumstances.

In doing so, the accountant demonstrates the critical assessment of audit evidence that contributes to the exercise of professional skepticism.

- *Objectivity* requires the professional accountant ~~not to compromise~~ exercise professional or business judgment without being compromised by ~~because of~~:
 - (a) ~~h~~ Bias;
 - (b) ~~e~~ Conflict of interest; or

- (c) ~~the u~~Undue influence of ~~others~~, or undue reliance on, individuals, organizations, technology or other factors.

For example, the accountant complies with the principle of objectivity by:

- (a) Recognizing circumstances or relationships such as familiarity with the client, that might compromise the accountant's professional or business judgment; and
- (b) Considering the impact of such circumstances and relationships on the accountant's judgment when evaluating the sufficiency and appropriateness of audit evidence related to a matter material to the client's financial statements.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

- *Professional competence and due care* requires the professional accountant to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations. For example, the accountant complies with the principle of professional competence and due care by:
 - (a) Applying knowledge that is relevant to a particular client's industry and business activities in order to properly identify risks of material misstatement;
 - (b) Designing and performing appropriate audit procedures; and
 - (c) Applying relevant knowledge when critically assessing whether audit evidence is sufficient and appropriate in the circumstances.

In doing so, the accountant behaves in a manner that contributes to the exercise of professional skepticism.

Additional requirements are set out in Section 600 "Ethics in Tax Practice", Section 700 "Corporate Finance Advice" under Chapter C of the Code.

PART 2 – PROFESSIONAL ACCOUNTANTS IN BUSINESS

SECTION 200

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN BUSINESS

...

Requirements and Application Material

General

...

200.5 A2 Professional accountants may promote the position of the employing organization when furthering the legitimate goals and objectives of their employing organization, provided that any statements made are neither false nor misleading. Such actions usually would not create an advocacy threat.

200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethics-based culture in the organization in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

- Ethics education and training programs.
- Management processes and performance evaluation and reward criteria that promote an ethical culture.
- Ethics and whistle-blowing policies.
- Policies and procedures designed to prevent non-compliance with laws and regulations.

Identifying Threats

...

SECTION 220

PREPARATION AND PRESENTATION OF INFORMATION

...

Requirements and Application Material

General

...

220.3 A3 For the purposes of this section, preparing or presenting information includes recording, maintaining and approving information.

R220.4 When preparing or presenting information, a professional accountant shall:

- (a) Prepare or present the information in accordance with a relevant reporting framework, where applicable;
- (b) Prepare or present the information in a manner that is intended neither to mislead nor to influence contractual or regulatory outcomes inappropriately;
- (c) Exercise professional judgment to:
 - (i) Represent the facts accurately and completely in all material respects;
 - (ii) Describe clearly the true nature of business transactions or activities; and
 - (iii) Classify and record information in a timely and proper manner; ~~and~~
- (d) Not omit anything with the intention of rendering the information misleading or of influencing contractual or regulatory outcomes inappropriately;
- (e) Avoid undue influence of, or undue reliance on, individuals, organizations or technology; and
- (f) Be aware of the risk of bias.

220.4 A1 An example of influencing a contractual or regulatory outcome inappropriately is using an unrealistic estimate with the intention of avoiding violation of a contractual requirement such as a debt covenant or of a regulatory requirement such as a capital requirement for a financial institution.

...

Relying on the Work of Others

R220.7 A professional accountant who intends to rely on the work of others ~~individuals~~, either internal or external to the employing organization, ~~or other organizations~~ shall exercise professional judgment to determine what steps to take, if any, in order to fulfill the responsibilities set out in paragraph R220.4.

REVISIONS TO THE CODE TO PROMOTE
THE ROLE AND MINDSET EXPECTED OF PROFESSIONAL ACCOUNTANTS

220.7 A1 Factors to consider in determining whether reliance on others is reasonable include:

- The reputation and expertise of, and resources available to, the other individual or organization.
- Whether the other individual is subject to applicable professional and ethics standards.

Such information might be gained from prior association with, or from consulting others about, the other individual or organization.

...

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

Professional activity An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, tax, management consulting, and financial management.

Professional judgment Professional judgment involves the application of relevant training, professional knowledge, skill and experience commensurate with the facts and circumstances, taking into account the nature and scope of the particular professional activities, and the interests and relationships involved.

This term is described in paragraph 120.5 A4.

Professional services Professional activities performed for clients.

Public interest entity (a) A listed entity; or
 (b) An entity:
 (i) Defined by regulation or legislation as a public interest entity; or
 (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities^{1c}. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.

^{1c} Currently under the legislation of Hong Kong, there is no definition of public interest entity or requirement for the audit of an entity to be conducted with the same independence requirements applicable to the audit of listed entities. Hence, there is no entity falling within this part of the definition under the legislation of Hong Kong.

REVISIONS TO THE CODE TO PROMOTE
THE ROLE AND MINDSET EXPECTED OF PROFESSIONAL ACCOUNTANTS

Reasonable and
informed third party

Reasonable and
informed third party
test

The reasonable and informed third party test is a consideration by the professional accountant about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made. The reasonable and informed third party does not need to be an accountant, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the accountant's conclusions in an impartial manner.

These terms are described in paragraph 120.5 A64.

Related entity

An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity.

EFFECTIVE DATE

This pronouncement will be effective as of 31 December 2021. Early adoption will be permitted.

HONG KONG STANDARDS ON RELATED SERVICES

HKRSRS 4400	Engagements to Perform Agreed-upon Procedures Regarding Financial Information	07/20
HKRSRS 4400 (Revised)	Agreed-Upon Procedures Engagements	09/20
HKRSRS 4410 (Revised)	Compilation Engagements	07/20

PRACTICE NOTES

PN 600.1 (Revised)	Reports by the auditor under the Hong Kong Companies Ordinance (Cap.622)	07/20
PN 620.2 (Revised)	Communication between the Auditor and the Insurance Authority	09/19
PN 720	Acting as Scrutineer at a General Meeting of a Listed Issuer	07/05
PN 730 (Revised)	Guidance for Auditors Regarding Preliminary Announcements of Annual Results	12/20
PN 740	Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules	12/15
PN 750	Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal	02/13
PN 810.1 (Revised)	Licensed Insurance Broker Companies - Compliance with the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules	09/19
PN 810.2 (Revised)	The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance	08/20
PN 820 (Revised)	The Audit of Licensed Corporations and Associated Entities of Intermediaries	10/16
PN 820 (Revised 2020)	The Audit of Licensed Corporations and Associated Entities of Intermediaries	12/20
PN 830 (Revised 2020)	Reports by the Auditor Under the Banking Ordinance	03/20
PN 840 (Revised)	Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules	08/16
PN 850 (Revised)	Reporting on Flag Days and General Charitable Fund-raising Activities Covered by Public Subscription Permits issued by the Social Welfare Department	11/18
PN 851	Review of the Annual Financial Reports of Non-governmental Organisations	09/04
PN 852	Review of lottery accounts	09/15
PN 860.1 (Revised)	The Audit of Retirement Schemes	08/20

PN 730 (Revised)
Issued September 2015, revised March 2017, December 2020*

Effective upon issuance

Practice Note 730 (Revised)

Guidance for Auditors Regarding Preliminary Announcements of Annual Results

* PN 730 (Revised) has been updated for amendments to the Main Board Listing Rules and GEM Listing Rules issued by The Stock Exchange of Hong Kong Limited following the “Consultation Conclusions on Proposed Changes to Documentary Requirements relating to Listed Issuers and Other Minor Rule Amendments” which came into effect on 1 March 2019.



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

PRACTICE NOTE 730 (REVISED)

GUIDANCE FOR AUDITORS REGARDING PRELIMINARY ANNOUNCEMENTS OF ANNUAL RESULTS

(Issued September 2015, revised March 2017, December 2020*)

CONTENTS

	Paragraphs
Introduction	1 – 10
Main Board and GEM Listing Rule requirements.....	11 – 14
Terms of engagement	15 – 18
Procedures	19 – 38
Communication of agreement.....	39 – 47
Appendix 1 Example Report on Agreement with Preliminary Announcement of Results	
Appendix 2 Example Engagement Letter	
Appendix 3 Extract of Main Board Listing Rules	
Appendix 4 Extract of GEM Listing Rules	

Practice Note (PN) 730 (Revised), "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" should be read in the context of the "Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements" which sets out the application and authority of PNs.

Introduction

1. The purpose of this Practice Note, which has been prepared in consultation with The Stock Exchange of Hong Kong Limited (SEHK) and the Securities & Futures Commission (SFC), is to provide guidance for auditors on their responsibilities with regard to preliminary announcements of results for the financial year. This Practice Note:
 - (a) addresses the requirement for an issuer listed on the SEHK (listed issuer) to obtain its auditors' agreement with the listed issuer's preliminary announcement of results under Main Board (Rule 13.49(2)) or GEM (Rule 18.49) Listing Rules and provides guidance on the nature and scope of such an agreement; and
 - (b) emphasizes the need for auditors to consider the way in which additional information accompanying the preliminary announcement of results (for example: highlights, Chairman's Statement, narrative disclosures, management commentary, etc), is presented in the preliminary announcement of results before reporting their agreement in respect of the preliminary announcement of results.
2. Preliminary announcement of results plays a key part in the annual financial reporting cycle, being the first public communication of listed issuers' full year results and year-end financial position. Preliminary announcement of results is relied on to provide timely, sufficient and accurate information to ensure an orderly and efficient market. Preliminary announcement of results forms one of the focal points for investor interest, primarily because they confirm or update market expectations. Because of this, auditors have a legitimate and important role to play in the process leading to the release of the preliminary announcement of a listed issuer's results for the financial year.
3. Both the content and the preparation of the preliminary announcement of results are the responsibility of the listed issuer's directors. The directors of a listed issuer are required by the Main Board Listing Rule 13.49(2) or GEM Listing Rule 18.49 to publish a preliminary announcement of results for the financial year which shall have been agreed with its auditors before it is published.
4. The Main Board and GEM Listing Rules do not indicate what form the agreement with the auditors would take or the extent of work expected of auditors before they give their agreement. This Practice Note provides guidance on the procedures that would normally be carried out by auditors and on communicating the outcome of such procedures to the directors.
5. Taking into account the nature of the engagement, auditors would perform an agreed-upon procedures engagement. Accordingly, auditors will carry out their work in accordance with Hong Kong Standard on Related Services (HKSRs) 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information".
6. In addition to publishing the preliminary announcement of its results, a listed issuer is also required to provide additional information to accompany its preliminary announcement of results. In this regard, auditors are to note that they are not required to report on the additional information to accompany the preliminary announcement of results. However, the auditors' work in respect of the additional information accompanying the preliminary announcement of results would be carried out in accordance with the procedures set out in this Practice Note.
7. There is an expectation that the information in a preliminary announcement of results will be consistent with that in the audited financial statements as the audit would be at an advanced stage and that, subject only to unforeseen events, auditors expect to be in a position to issue their report on the financial statements once the outstanding matters have been resolved and that the results in the financial statements would be consistent with the amounts included in the preliminary announcement of results. However, the risk of later changes to the figures in the preliminary announcement of results is not completely extinguished unless the preliminary announcement of results is issued at the same time that the financial statements are approved by the directors and auditors have signed their opinion on them.

8. To help ensure that the draft preliminary announcement of results that has been agreed by auditors has in fact been approved by the directors without any further amendments or that auditors agree with the amendments, it is recommended that auditors carry out the following procedures:
- (a) Attend the board of directors' meeting at which the directors approve the preliminary announcement of results and the financial statements supporting that preliminary announcement of results. Alternatively, auditors obtain a copy of the board minutes approving the preliminary announcement of results and the financial statements supporting that preliminary announcement of results; and
 - (b) Attach a set of the financial statements supporting the preliminary announcement of results and the final version of the preliminary announcement approved by the directors to the auditors' letter to directors indicating their agreement with respect to the preliminary announcement of results.

This is recommended because, in the event that the board of directors at its meeting to approve the preliminary announcement of results decides to amend the preliminary announcement of results and the financial statements supporting that preliminary announcement of results, auditors would need to be made aware of the directors' decision to amend the preliminary announcement of results and be in a position to decide the additional work, if any, that may be required before auditors give their agreement with the revised preliminary announcement of results.

9. This Practice Note provides guidance to auditors on interpreting the expression "advanced stage".
10. There is no requirement for a preliminary announcement of results to include an auditors' report. This is considered appropriate, as it is unlikely that a communication that contains both a clear expression of opinion and sets out the information necessary for a proper understanding of that opinion, can be developed without producing a report of excessive length and complexity; which would be out of place in the context of the preliminary announcement of results as a whole. In this situation, the auditors would issue a letter to the directors of the listed issuer signifying their agreement of the preliminary announcement of results following this Practice Note (see Appendix 1). When the complete set of financial statements together with the auditors' report thereon are included in the preliminary announcement of results, no separate reporting on the agreement of the preliminary announcement of results with the auditors would be necessary¹.

Main Board and GEM Listing Rule requirements

Main Board

11. Appendix 3 sets out section 13.49 of the Main Board Listing Rules together with paragraphs 4, 45 and 45A of Appendix 16 in relation to Preliminary Announcement of Results – Full Financial Year.

GEM

12. Appendix 4 sets out sections 18.49 to 18.50 of the GEM Listing Rules in relation to preliminary announcement of results for the financial year.

¹ For Hong Kong incorporated companies, where the financial information provided in a preliminary announcement of results for a financial year is satisfied solely by meeting the requirements of Appendix 16, paragraph 45(1) of the Main Board Listing Rules or GEM Listing Rule 18.50(i), that financial information will constitute 'non-statutory accounts' for both the current and comparative years and the requirements set out in section 436 of the Hong Kong Companies Ordinance, Cap. 622 would apply. However, providing the full audited statutory financial statements for the current year (which include the financial statements for the preceding financial year as comparatives) with the auditor's report thereon in a preliminary announcement of results for the current financial year is not a form of 'non-statutory accounts'. See Accounting Bulletin 6 "[Guidance on the Requirements of Section 436 of the Hong Kong Companies Ordinance Cap. 622](#)".

Frequently Asked Questions

13. The SEHK and SFC update their frequently asked questions ("FAQ") from time to time and they are designed to help issuers to understand and comply with the Listing Rules, particularly in situations not explicitly set out in the Listing Rules or where further clarification may be desirable. The issuers should apply the latest guidance in the FAQ in preparing the preliminary announcement of results.
14. FAQ 002-2017 and 003-2017 issued on 6 January 2017 relate to the audit terminology used in the Listing Rules with reference to the Hong Kong Standards of Auditing and they are relevant for preliminary announcements of results for period ended on or after 15 December 2016.

Terms of engagement

15. It is in the interests of both auditors and the listed issuer that the auditors' role in respect of preliminary announcement of results is set out in writing, typically by including relevant paragraphs in the engagement letter. To avoid misunderstanding, the engagement letter describes the process of "agreeing" the preliminary announcement of results.
16. In circumstances where the auditors are to agree to a preliminary announcement of results that in turn is based on financial statements on which their audit is not complete (which may often be the case in Hong Kong), the engagement letter includes cautionary language to the effect that there is an unavoidable risk that the company may wish to revise its preliminary announcement of results in the light of audit findings or other developments occurring before the completion of the audit.
17. Matters that may be dealt with in the engagement letter include:
 - (a) the responsibility of the directors in preparing the preliminary announcement of results;
 - (b) the fact that auditors will conduct their work in accordance with HKSRS 4400 and with reference to this Practice Note;
 - (c) a statement as to whether auditors believe it is management's intention that the preliminary announcement of results will be based on audited financial statements or on draft financial statements upon which auditors have not issued a report or alternatively, that it is not certain as to which will be the case;
 - (d) a statement that auditors would issue a letter confirming their agreement to the preliminary announcement of results (subject to obtaining the necessary evidence and carrying out the work in accordance with HKSRS 4400 and with reference to this Practice Note); and
 - (e) a statement explaining the inherent limitations of the auditors' work.
18. An example engagement letter is set out in Appendix 2 for use as a guide only and will need to be varied according to individual requirements and circumstances.

Procedures*Planning*

19. Where the preliminary announcement of results is to be based on draft financial statements, the company's timetable would allow auditors to have completed the audit other than for those matters set out in paragraph 24 below. Furthermore, the Board/Committee of the Board would formally approve the draft financial statements of the company supporting the preliminary announcement of results before auditors agree to the preliminary announcement of results. If the evidence of approval from the Board/ Committee of the Board is not available, auditors would obtain alternative evidence of the adoption by the listed issuer of the draft financial statements and preliminary announcement of results. In the absence of such evidence, auditors would refrain from issuing their agreement to the preliminary announcement of results.

Preliminary announcements of results based on audited financial statements

20. Arising from the requirements of the Listing Rules, there is an expectation on the part of the users that the information in a preliminary announcement of results will be consistent with that in the audited financial statements. The only way of achieving absolute certainty of this is for the audit of the financial statements to have been completed and the contents of the preliminary announcement of results to have been extracted from audited financial statements that have been approved and signed by the directors and upon which auditors have issued their report on or before the date of the preliminary announcement of results.
21. Where the announcement of results is based on audited financial statements, it is acceptable for the listed issuer not to mention “preliminary” in the headline of the announcement and when describing the results of the financial year. For purposes of this Practice Note, the term “preliminary announcement of results” refers to both the situations where the financial results are based on audited financial statements (as set out in paragraph 20 above) or draft financial statements (as set out in paragraph 22 below).

Preliminary announcements of results based on draft financial statements

22. Where a preliminary announcement of results is based on draft financial statements, there are additional risks in these circumstances if further information comes to light during the course of finalization of the financial statements by the listed issuer or as a result of the auditors' further procedures that would be reflected in the financial statements and that may give rise to the need for a revised preliminary announcement of the listed issuer's results. Before agreeing to the preliminary announcement of results, therefore, the directors need to ensure they are satisfied that the information contained in the preliminary announcement of results will be consistent with the information that will be contained in the audited financial statements.
23. Auditors will need to be satisfied that any matters outstanding with respect to their audit will be unlikely to result in changes to the results contained in the preliminary announcement of results. This means that the audit of the financial statements would be at an advanced stage and that, subject only to unforeseen events, auditors expect:
- (a) to be in a position to issue their report on the financial statements once the outstanding matters have been resolved; and
 - (b) that the results in the financial statements will be consistent with the amounts included in the preliminary announcement of results.
24. This means that the audit, including an Engagement Quality Control Review as described in HKSA 220, *Quality Control for an Audit of Financial Statements*, is completed subject only to the following:
- (a) clearing outstanding audit matters which auditors are satisfied are unlikely to have a material impact on the financial statements or disclosures in the preliminary announcement of results;
 - (b) completing audit procedures on the details of disclosures in the notes to the financial statements that will not be expected to have a material impact on the primary financial statements;
 - (c) completing their reading of other information in the annual report in accordance with HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*;
 - (d) updating the subsequent events review to cover the period between the issue of the preliminary announcement of results and the date of the auditors' report on the financial statements; and
 - (e) obtaining written representations, where relevant, from management and establishing that the financial statements have been reviewed and approved by the directors.

All preliminary announcements of results

25. The core procedure that auditors will normally carry out in relation to the preliminary announcement of results regardless of whether it is based on draft financial statements or extracted from audited financial statements is checking that the figures in the preliminary announcement of results have been accurately extracted from the audited or draft financial statements, and reflect the presentation to be adopted in the audited or draft financial statements.
26. In FAQ 002-2017 issued by the SEHK, it is stated that there is no specific requirement under the Main Board Listing Rules or the GEM Listing Rules for an issuer to provide in its preliminary announcement of results the details of the key audit matters included in the auditors' report. FAQ 002-2017 further states that for investors to better understand the financial statements and the audit that was performed, it is considered more appropriate that KAM should be read and considered together with the full audit report and the complete set of financial statements. Therefore, the issuer is recommended to publish its full annual report as soon as practicable after the preliminary results announcement has been issued.
27. Other ancillary procedures that auditors will normally carry out include:
 - (a) considering whether the information (including the management commentary) is consistent with other expected contents of the annual report of which auditors are aware; and
 - (b) considering whether the information in the preliminary announcement of results is misstated. A misstatement exists when the information is stated incorrectly or presented in a misleading manner. A misstatement may arise, for example, as a result of an omission of a significant change of accounting policy disclosed or due to be disclosed in the audited financial statements.

If auditors encounter any inconsistency or misstatement, they seek to resolve the issues with the directors.

Additional information and management commentary

28. It is recognized that in some circumstances the presentation of additional financial information and narrative explanations in the preliminary announcement of results in addition to disclosing the results may help shareholders to understand better the financial performance of a listed issuer. However, there is concern that in some instances, such additional information has the potential to be misleading and shareholders may sometimes be misinformed by the manner in which additional information is included in the preliminary announcement of results with which auditors are associated. In those circumstances, it is believed that the potential for additional information to be misleading is considerable when inappropriate prominence is given to the additional information, when there is no description of the additional information or where the information is not consistent with the information set out in the draft or audited (as the case may be) financial statements.
29. In this context where the preliminary announcement of results includes additional information, before agreeing to the preliminary announcement of results, auditors consider whether:
 - (a) additional financial information is clearly and appropriately described; and
 - (b) the additional information is not otherwise misleading in the form and context in which it appears.

If auditors do not believe that the additional information accompanying the preliminary announcement of results satisfies these conditions, they seek to resolve the issues with the directors.

30. Auditors read the management commentary and any other narrative disclosures and consider whether they are in conflict with the information that they have obtained in the course of their audit. If they become aware of any material inconsistencies with information obtained during their audit or with the draft or audited (as the case may be) financial statements, they seek to resolve them with the directors.
31. Auditors will also read the text, or draft thereof, if they are available, of any Chairman's Statement, operating and financial review or similar document to be included in the annual report from which the management commentary in the preliminary announcement of results will usually be derived. In event of disagreement, auditors communicate with the board of directors and the audit committee.

Prior period adjustments due to correction of material errors

32. Where there are prior period adjustments due to the correction of material errors, a listed issuer must include a statement of that fact. With respect to the financial information in relation to the prior period adjustments, auditors will normally check that the figures in the preliminary announcement of results have been accurately extracted from the audited or draft financial statements. With respect to the information (including the management commentary) describing the prior period adjustments due to correction of material errors, the procedures normally carried out by the auditors include considering whether such information:
 - (a) is consistent with the contents of the audited or draft financial statements;
 - (b) is clearly and appropriately described; and
 - (c) is not otherwise misleading in the form and context in which it appears.

If auditors encounter any inconsistency or misstatement, they seek to resolve the issues with the directors.

Inability to resolve matters

33. If the listed issuer is unable to resolve the matters set out in paragraphs 25 to 32 above to the auditors' satisfaction, auditors do not issue their agreement in respect of the preliminary announcement of results and send a letter to the board of directors setting out the reasons. It will be necessary to allow the listed issuer to provide a copy of the letter to the SEHK and SFC upon request.

Directors' approval of the preliminary announcement

34. It is recommended that the preliminary announcement of results states the date on which it was approved by the board of directors. Auditors do not agree to the preliminary announcement of results until its entire content has been formally approved by the board or by a duly authorized committee of the board. As recommended in paragraph 8 above, auditors therefore attend the board of directors' meeting approving the preliminary announcement of results and the financial statements supporting the preliminary announcement of results or obtain sufficient alternative evidence confirming these matters.

Modifications to the audit report

35. The Main Board and GEM Listing Rules require that, if the auditors are likely to issue a modified report on the listed issuer's annual financial statements, the preliminary announcement of results gives details of the modification.

36. In FAQ 002-2017 and 003-2017 issued by the SEHK, it is stated that the issuer needs to provide details in the preliminary results announcement for the following situations:
- (a) where the audit opinion in the auditors' report is a "modified opinion" (i.e. a qualified opinion, an adverse opinion or a disclaimer of opinion); and/or
 - (b) where the auditors' report contains any of the following without modifying the audit opinion: - an emphasis of matter paragraph; and a material uncertainty related to going concern.
37. Where the auditors' report does, or is expected to, include a separate section on "Material Uncertainty Related to Going Concern", auditors do not issue their agreement in respect of the preliminary announcement of results unless the directors have adequately disclosed about the material uncertainty in the preliminary announcement of results. This is because the material uncertainty related to going concern would generally be regarded as a matter that is highly relevant to the reported financial position. There is, however, no need for the preliminary announcement of results to refer to the auditors in this context – it is for management to explain the relevant material uncertainty.
38. If the precise details of the matters giving rise to a modified opinion, an emphasis of matter paragraph or a material uncertainty related to going concern are critical to a full appreciation of the financial position/auditors' report, it is strongly recommended that auditors do not issue their agreement in respect of the preliminary announcement of results unless the matters are adequately disclosed in the preliminary announcement of results. Where reference is made in a preliminary announcement of results to a modified opinion, an emphasis of matter paragraph or a material uncertainty related to going concern, the directors would give adequate prominence to that information in the preliminary announcement of results and auditors would have to be satisfied in this regard. If auditors have concerns about the appropriateness of the wording of a statement referring to a modified opinion, an emphasis of matter paragraph or a material uncertainty related to going concern, they are encouraged to discuss their concerns with the audit committee of the listed issuer and seek their assistance to resolve their concerns or seek legal advice.

Communication of agreement

39. Auditors are encouraged to make explicit their agreement in respect of the preliminary announcement of results by sending a letter to the directors. An example of such a report is given in Appendix 1. The report will be addressed to the board of directors and will state the factual findings in accordance with HKSRS 4400. It will also state that no assurance engagement has been performed and accordingly, no assurance is expressed thereon by auditors.
40. Similarly, if auditors are not in agreement with the content of the preliminary announcement of results, they communicate this to the directors by sending them a letter setting out the reasons for their disagreement, advising the directors that it may be inappropriate for the listed issuer to publish the preliminary announcement of results.
41. The report is solely for the purpose for the listed issuer's information only, and is not to be used for any other purpose or to be distributed to any other parties and the report shall state this. However, it will be necessary to allow the listed issuer to provide a copy of the report to the SEHK and SFC upon request.
42. The auditors' agreement to the preliminary announcement of results may be mentioned in the listed issuer's public announcement. Auditors will normally agree to this provided that the scope of their work is clearly set out in the preliminary announcement of results. An example of such a disclosure can be found in Appendix 2.

43. In the exceptional circumstances where the listed issuer publishes the preliminary announcement of results without obtaining its auditors' agreement, for example, where the audit of the financial statements is not at an advanced stage, the listed issuer should follow the requirements under Main Board Listing Rules 13.49(3)(i)². The fact that the listed issuer has not yet agreed its preliminary results with its auditors should be clearly disclosed in the preliminary announcement of results. When the listed issuer makes an announcement in accordance with Main Board Listing Rules 13.49(3)(i)², the listed issuer will be required to publish a further announcement of results in accordance with Main Board Listing Rules 13.49(3)(ii) and 13.49(4)² as soon as the financial results have been agreed with its auditors.
44. Auditors may otherwise become aware that a listed issuer has released its preliminary announcement of results without first obtaining their agreement. There may be a number of reasons for this ranging from innocent oversight on the part of the directors to the directors knowingly releasing a preliminary announcement of results with which auditors disagree. The action that auditors take depends on the particular circumstances. In circumstances where a preliminary announcement of results is inadvertently released without the auditors' knowledge, but with which auditors do in fact agree, auditors may wish to remind the directors of their obligation under the Main Board or GEM Listing Rules to obtain the auditors' agreement.
45. However, at the other end of the spectrum where auditors become aware that the directors have released a preliminary announcement of results with which they disagree, they write to the audit committee regarding the discrepancies and request the audit committee to inform the regulators of such matter.
46. If auditors were to report the matter to the SEHK, they need to consider whether there might be a breach of confidentiality. Where the listed issuer has issued the preliminary announcement of results despite the auditor has not issued the letter confirming their agreement to the preliminary announcement of results, the auditor's course of action depends upon the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.
47. If auditors decide it necessary to report the fact that they had not agreed to the preliminary announcement of results to the SFC, they will be subject to the protection of sections 380 and 381 of the Securities and Futures Ordinance. Sections 380 and 381 of the Securities and Futures Ordinance provide immunity to a person who is or was an auditor of a corporation which is listed, or any associated corporation of the corporation, who reports to the SFC matters which come to his attention that suggest that at any time since the formation of the listed company, its shareholders have not been given all the information with respect to its affairs that they might reasonably expect. Auditors are advised to consult their lawyers before making such a report.

² As stated in footnote 2 of the ["Joint Statement in relation to Results Announcements in light of Travel Restrictions related to the Severe Respiratory Disease associated with a Novel Infectious Agent"](#) issued by the SFC and SEHK on 4 February 2020, GEM listed issuers that are unable to publish audited financial statements on or before the reporting deadline should follow Main Board Listing Rules 13.49(3) and (4).

APPENDIX 1

EXAMPLE REPORT ON AGREEMENT WITH PRELIMINARY ANNOUNCEMENT OF RESULTS

Report of Factual Findings

To: Board of Directors
[XYZ Company Limited]

In accordance with our engagement letter dated [date], we have performed the procedures agreed with you which are set out below with respect to the preliminary announcement of results of [XYZ Company Limited] (the "Company") and its subsidiaries (the "Group") for the year ended [date] (the "Preliminary Announcement"), for which you are solely responsible.

Our engagement was conducted in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" ("HKSRs 4400") and with reference to Practice Note 730 (Revised) "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The procedures were performed solely to assist you in satisfying the requirement of Rule [13.49(2)]¹[18.49]² of the Rules Governing the Listing of Securities on [GEM of]² The Stock Exchange of Hong Kong Limited (the "SEHK").

For the purpose of this report, we obtained from the Company [a draft copy of] the Preliminary Announcement and the [draft/audited] consolidated financial statements of the Group for the year ended [date], copies of which are attached for reference, and compared the figures set out in the Preliminary Announcement in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto to the [draft/audited] consolidated financial statements of the Group for the year.

Based on the information and documents made available to us, we found the figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended [date] as set out in the Preliminary Announcement were in agreement with the amounts set out in the [draft/audited] consolidated financial statements of the Group for the year [as tabled for approval by the board of directors on [date]] [except for the following discrepancies set out below (*such discrepancies to be set out, if applicable*)]³.

Because the above procedures did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA (collectively referred to as Hong Kong assurance standards), we do not express any assurance on the Preliminary Announcement.

Had we performed additional procedures or had we performed an assurance engagement in respect of the Preliminary Announcement in accordance with Hong Kong assurance standards, other matters might have come to our attention that would have been reported to you.

¹ Applicable for Main Board listed issuers.

² Applicable for GEM listed issuers.

³ In general, the report should not be released if discrepancies between the amounts set out in the preliminary announcement and the financial statements were noted, unless the discrepancies were considered to be minor, e.g. typographical errors.

[Events or issues may arise during the course of finalising and issuing the audited consolidated financial statements of the Group that might result in the need to revise an amount[s] in the Group's consolidated financial statements or to [modify the draft auditors' report] / [further modify the auditors' report]⁴.

Our report is solely for the purpose set forth in the second paragraph of this report and is for your information only, and is not to be used for any other purpose or to be distributed to any other parties and we expressly disclaim any liability or duty to any other party in this respect. We agree that a copy of this report will be provided to the SEHK and Securities and Futures Commission upon their request without further comment from us. This report relates only to the items specified above and does not extend to the Preliminary Announcement [or the audited consolidated financial statements] taken as a whole.

ABC & Co.

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

Date

⁴ To include if the auditors' report has not been issued as of the date of issuance of this report. Furthermore, if modification of the auditors' report is already anticipated, the auditors should have previously notified the listed issuer as paragraph 45(7) of Appendix 16 to the Main Board Listing Rules and GEM Listing Rule 18.50(8) require that where the auditors are likely to issue a modified report on the listed issuer's annual financial statements, details of the modification should be set out in the preliminary announcement.

APPENDIX 2

EXAMPLE ENGAGEMENT LETTER

The following engagement letter is for use as a guide only and will need to be varied according to individual requirements and circumstances⁵. This engagement letter can be issued at the same time as the engagement letter for the audit of the annual financial statements of the company.

To the Board of Directors of [XYZ Company Limited]:

The purpose of this letter is to set out the basis on which we assist you in satisfying the requirement of Rule [13.49(2)]⁶[18.49]⁷ of the Rules Governing the Listing of Securities on [GEM of]⁷ The Stock Exchange of Hong Kong Limited ("SEHK").

As your auditors, we are required to provide you with a report on our agreement with the preliminary announcement of results of [XYZ Company Limited] (the "Company") and its subsidiaries (the "Group") for the year ended [date] (the "Preliminary Announcement").

1. Responsibilities of directors

- 1.1 As directors of the Company, you are solely responsible for content and the preparation of the Preliminary Announcement.
- 1.2 You will make available to us for the purpose of preparing our report:
 - [a draft copy of] the Preliminary Announcement; and
 - [draft/audited] consolidated financial statements of the Group for the year ended [date].
- 1.3 You will provide us with such information and explanations as we consider necessary for the purposes of our work. We shall request sight of the Preliminary Announcement in sufficient time to enable us to complete our work. The Board/Committee of the Board will formally approve the Preliminary Announcement.
- [1.4 You will also make available to us the proposed text of the Company's annual report. The Board/Committee of the Board should also formally approve the draft consolidated financial statements of the Group supporting the Preliminary Announcement before we report on that Preliminary Announcement.]
- 1.5 You will also invite us to attend the Board of Directors' meeting at which the directors approve the Preliminary Announcement and the draft consolidated financial statements of the Group supporting that Preliminary Announcement. Alternatively, you will provide us with a copy of the board minutes approving the Preliminary Announcement and the draft consolidated financial statements of the Group.

2. Scope of our work

- 2.1 You have requested us to provide a report on our agreement with the Preliminary Announcement. The scope of our work will be limited to the procedures agreed with you as set out in this engagement letter. In carrying out our work, we will not in any way act as management. Your responsibilities as directors of the Company have been set out in section 1 above.

⁵ Auditors may consider it appropriate to include a limitation of liability clause in their engagement letter in accordance with their risk management policies.

⁶ Applicable for Main Board listed issuers.

⁷ Applicable for GEM listed issuers.

- 2.2 As agreed with you, we will perform the following procedures:

We will obtain from the Company [a draft copy of] the Preliminary Announcement and the [draft/audited] consolidated financial statements of the Group for the year ended [date] and will compare the figures set out in the Preliminary Announcement in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto to the [draft/audited] consolidated financial statements of the Group for the year. We will report to you our agreement with the Preliminary Announcement.

- 2.3 Our work will be carried out in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" ("HKSRS 4400") and with reference to Practice Note 730 (Revised) "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" ("PN 730") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").
- 2.4 The procedures that we will perform will not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and, consequently, no assurance will be expressed on the Preliminary Announcement.
- 2.5 Our engagement cannot be relied upon to identify or disclose whether fraud or errors, or illegal acts exist or have been undertaken. However, we will inform you of any such matters which come to our attention.

3 Reporting

- 3.1 Our report will be addressed to the Board of Directors of the Company and will state our factual findings in respect of obtaining from the Company [a draft copy of] the Preliminary Announcement and the [draft/audited] consolidated financial statements of the Group for the year ended [date] and comparing the figures set out in the Preliminary Announcement in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto to the [draft/audited] consolidated financial statements of the Group for the year, in accordance with HKSRS 4400 and with reference to PN 730. It will also state that we have not performed an assurance engagement on the Preliminary Announcement and accordingly express no assurance thereon. In addition, if when carrying out our work we are of the view that irregularities or differences of view arise in respect of the Preliminary Announcement, we will not issue our agreement in respect of the Preliminary Announcement and will send a letter to the Board of Directors of the Company setting out such irregularities and differences of view.
- 3.2 In accordance with HKSRS 4400, our report should not be distributed to any parties who have not agreed to the procedures to be performed. Accordingly, our report will state this. Consequently, our report will be for the information of the Board of Directors of the Company only and it should not be copied, referred to or disclosed in whole or in part to any other persons and we expressly disclaim any liability to any such party in this respect. However, we will allow you to disclose the contents and/or send a copy of the report to the SEHK and Securities and Futures Commission upon their request.
- 3.3 We understand that our name may be identified in the Company's public announcement in respect of our report on our agreement with the Preliminary Announcement. We will agree to this provided that our scope of work is made clear in the Preliminary Announcement. An example disclosure in this respect is as follows:

Scope of work of ABC & Co.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, [insert other statements if presented in the preliminary announcement] and the related notes thereto for the year ended [date] as set out in the preliminary announcement have been agreed by the Group's auditors, ABC & Co., to the amounts set out in the Group's [draft/audited] consolidated financial statements for the year. The work performed by ABC & Co. in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ABC & Co. on the preliminary announcement.

- 3.4 We will be entitled to review and comment on the appropriateness of, and object to, the contents of the Preliminary Announcement containing references to ABC & Co. prior to its issuance. The Company will take account of our comments and objections and the Company agrees that any references to our report on the Preliminary Announcement will not be finalised or published without having obtained our prior written consent. If a situation arises where the Preliminary Announcement is published without taking into account our comments and objections and without having obtained our prior written consent, we will write to your audit committee regarding the discrepancies and request the audit committee to inform the regulators of such matter.
- [3.5 You are to note that we will not provide you with our report on our agreement with the Preliminary Announcement until the audit is complete subject only to the following:
- (a) clearing outstanding audit matters which we are satisfied are unlikely to have a material impact on the consolidated financial statements or disclosures in the Preliminary Announcement;
 - (b) completing audit procedures on the details of disclosures in the notes to the consolidated financial statements that will not be expected to have a material impact on the primary financial statements;
 - (c) completing our reading of the other information in the annual report in accordance with HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* issued by the HKICPA;
 - (d) updating the subsequent events review to cover the period between the issue of the Preliminary Announcement and the date of the auditors' report on the consolidated financial statements; and
 - (e) obtaining written representations, where relevant, from management and establishing that the consolidated financial statements have been reviewed and approved by the directors of the Company.

The scope of our work will be necessarily limited in that we will only be able to check the consistency of the Preliminary Announcement with draft consolidated financial statements of the Group on which our audit is incomplete. Accordingly, we shall not, at that stage, know whether further adjustments may be required to those draft consolidated financial statements of the Group. Consequently, there is an unavoidable risk that the Company may wish to revise its Preliminary Announcement in the light of audit findings or other developments occurring between the Preliminary Announcement being published and the completion of the audit.]

- 3.6 In the event that we disagree with the content of the Preliminary Announcement we will send you a letter setting out the reasons.

Yours faithfully,

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

We agree to the terms of this letter.

(Signed)
Director, for and on behalf of the Board of [XYZ Company Limited]

APPENDIX 3

EXTRACT OF MAIN BOARD LISTING RULES*

Preliminary Announcements of Results – Full Financial Year

- 13.49 (1) An issuer shall publish in accordance with rule 2.07C its preliminary results in respect of each financial year as soon as possible, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of the board. The issuer must publish such results not later than three months after the end of the financial year.
- (2) The preliminary announcement shall be based on the issuer's financial statements for the financial year which shall have been agreed with the auditors.
- (3) (i) Where an issuer is unable to make an announcement of its preliminary results based on its financial statements in accordance with rules 13.49(1) and 13.49(2), it must make an announcement not later than three months after the end of the financial year.

The announcement must contain at least the following information:—

- (a) a full explanation for its inability to make an announcement based on financial statements which have been agreed with the auditors. Where there are uncertainties arising from the lack of supporting evidence or relating to the valuation of assets or liabilities, sufficient information to allow investors to determine the significance of the assets or liabilities;
- (b) the expected date of announcement of the financial results for the financial year which shall have been agreed with the auditors; and
- (c) so far as the information is available, results for the financial year based on financial results which have yet to be agreed with the auditors. Where possible, those results must have been reviewed by the issuer's audit committee. In the event that the audit committee disagreed with an accounting treatment which had been adopted or the particulars published in accordance with rule 13.49(3)(i)(a), full details of such disagreement.
- (ii) Where an issuer makes an announcement in accordance with rule 13.49(3)(i), then:
- (a) the issuer will be required to comply with the requirements set out in rule 13.49(2), as soon as the financial results for the financial year have been agreed with the auditors; and
- (b) where the financial results for the financial year which have been agreed by the auditors differ materially from the financial results published by the issuer in accordance with rule 13.49(3)(i)(c), full particulars of, and reasons for, the difference must be set out in the preliminary announcement of such agreed results.
- (4) The preliminary announcement of results (made in accordance with rule 13.49(2) or 13.49(3)) must comply with the provisions set out in Appendix 16 in relation to preliminary announcements of results for the full financial year.

Note: Issuers' attention is drawn to paragraphs 45 and 45A of Appendix 16.

* Consent has been obtained from the SEHK in relation to the publication of this section of the Main Board Listing Rules (as at October 2020) in this Practice Note.

(5) [Repealed 25 June 2007]

Paragraphs 4, 45 and 45A of Appendix 16 "Disclosure of Financial Information"

Basic Financial Information

4. Financial statements referred to in paragraph 2 shall include the disclosures required under the relevant accounting standards adopted and the information set out below. This information may be included in the notes to the financial statements. In the case of banking companies, the information on results and financial position set out in the Guideline on the Application of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority must be provided in place of that set out in paragraph 4(1) and paragraph 4(2) as regards the disclosure requirements for preliminary announcements of results, interim reports, annual reports, listing documents and circulars.

(1) Statement of profit or loss and other comprehensive income

(a) profit (or loss) on sale of properties.

4.1 Where the item of information specified in sub-paragraph 4(1) is unsuited to a listed issuer's activities, appropriate adjustments should be made. Where the requirements of this appendix are unsuited to a listed issuer's activities or circumstances, the Exchange may require suitable adaptations to be made.

(2) Statement of financial position

(a) ageing analysis of accounts receivable; and

(b) ageing analysis of accounts payable.

4.2 The ageing analysis should normally be presented on the basis of the date of the relevant invoice or demand note and categorised into time-bands based on analysis used by an issuer's management to monitor the issuer's financial position. The basis on which the ageing analysis is presented should be disclosed.

(3) Dividends

Rates of dividend paid or proposed on each class of shares (with particulars of each such class) and amounts absorbed thereby (or an appropriate negative statement).

Information to accompany preliminary announcements of Results for the financial year

45. A listed issuer shall publish a preliminary announcement of its results in accordance with rule 2.07C as required under rule 13.49(1), which has been agreed with its auditors and which includes, as a minimum, the following:

(1) the information in respect of the statement of financial position and the statement of profit or loss and other comprehensive income as set out in paragraph 4 comprising statement of profit or loss and other comprehensive income for the financial year, with comparative figures for the immediately preceding financial year, and statement of financial position as at the end of the financial year, with comparative figures as at the end of the immediately preceding financial year. The listed issuer must include the notes relating to revenue, taxation, earnings per share, dividends and any other notes that the directors consider necessary for a reasonable appreciation of the results for the year. Directors of the listed issuer must ensure that the information contained in the preliminary announcement of results is consistent with the information that will be contained in the annual reports (see paragraph 45A);

45.1 [Repealed 31 December 2015]

- (2) particulars of any purchase, sale or redemption by the listed issuer, or any of its subsidiaries, of its listed securities during the relevant year or an appropriate negative statement;
- (3) a commentary covering the following:
 - (a) a fair review of the development of the business of the listed issuer and its subsidiaries during the financial year and of their financial position at the end of the year;
 - (b) details of important events affecting the listed issuer and its subsidiaries which have occurred since the end of the financial year; and
 - (c) an indication of likely future developments in the business of the listed issuer and its subsidiaries;
- (4) any supplementary information which in the opinion of the directors of the listed issuer is necessary for a reasonable appreciation of the results for the relevant year;
- (5) a statement as to whether the listed issuer meets the code provisions set out in the Corporate Governance Code contained in Appendix 14. The listed issuer must also disclose any deviations from the code provisions and give considered reasons for such deviations. To the extent that it is reasonable and appropriate, such information may be given by reference to the immediately preceding interim report or to the Corporate Governance Report in the immediately preceding annual report, and summarising any changes since that report. Any such references must be clear and unambiguous;
- (6) a statement as to whether or not the annual results have been reviewed by the audit committee of the listed issuer;
- (7) where the auditors are likely to issue a modified report on the listed issuer's annual financial statements, details of the modification;
- (8) where there are any significant changes in accounting policies, a statement of that fact must be made; and

45.2 A listed issuer should apply the accounting policies consistently except where the change in accounting policy is required by an accounting standard which came into effect during the financial year.

- (9) where there are prior period adjustments due to correction of material errors, a statement of that fact must be made.

45.3 The term financial year refers to the period covered by a listed issuer's financial statements even where the period is not a calendar year.

45A. Where, in exceptional circumstances, it becomes necessary to revise the information contained in the listed issuer's preliminary announcement of results in the light of developments arising between the date of publication of the announcement and the completion of the audit, the listed issuer must immediately notify the Exchange and publish an announcement in accordance with rule 2.07C to inform the public. The announcement must provide details of the changes made to the published preliminary announcement of results including any impact on the published financial information of the listed issuer and the reasons for such changes.

45A.1 The Exchange does not expect there to be any material or substantial difference between the information contained in the listed issuer's preliminary announcement of results and that contained in its audited results.

APPENDIX 4

EXTRACT OF GEM LISTING RULES*

Preliminary announcement of results for the financial year

Preliminary

- 18.49 A listed issuer must publish (in accordance with the requirements of Chapter 16) a preliminary announcement of the results for the financial year, which has been agreed with its auditors, on the GEM website as soon as possible, but in any event not later than the time that is 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the next business day after approval by or on behalf of the board of its results. The issuer must publish such results not later than 3 months after the date upon which the financial year ended.

Note: The term financial year refers to the period covered by a listed issuer's financial statements even where the period is not a calendar year.

Content of preliminary announcement

- 18.50 The preliminary announcement of results for the financial year must contain at least the following information in respect of the group:

- (1) the information in respect of the statement of financial position and the statement of profit or loss and other comprehensive income as set out in rule 18.50B comprising a statement of profit or loss and other comprehensive income for the financial year, with comparative figures for the immediately preceding financial year, and statement of financial position as at the end of the financial year, with comparative figures as at the end of the immediately preceding financial year. The listed issuer must include the notes relating to revenue, taxation, earnings per share, dividends and any other notes that the directors consider necessary for a reasonable appreciation of the results for the year. Directors of the listed issuer must ensure that the information contained in the preliminary announcement of results is consistent with the information that will be contained in the annual reports (see rule 18.50A);

Note: [Repealed 31 December 2015]

- (2) a commentary covering the following:
 - (a) a fair review of the development of the business of the listed issuer and its subsidiaries during the financial year and of their financial position at the end of the year;
 - (b) details of important events affecting the listed issuer and its subsidiaries which have occurred since the end of the financial year; and
 - (c) an indication of likely future developments in the business of the listed issuer and its subsidiaries;
- (3) [Repealed 31 December 2015]
- (4) particulars of any purchase, sale or redemption by the listed issuer or any of its subsidiaries, of its listed securities during the financial year, or an appropriate negative statement;

* Consent has been obtained from the SEHK in relation to the publication of this section of the GEM Listing Rules (as at October 2020) in this Practice Note.

- (5) any supplementary information which in the opinion of the directors of the listed issuer is necessary for a reasonable appreciation of the results for the relevant year;
- (6) a statement as to whether the listed issuer meets the code provisions set out in the Corporate Governance Code contained in Appendix 15. The listed issuer must also disclose any deviations from the code provisions and considered reasons for such deviations. To the extent that it is reasonable and appropriate, such information may be given by reference to the immediately preceding half-year report or to the Corporate Governance Report in the immediately preceding annual report, and summarising any changes since that report. Any such references must be clear and unambiguous;
- (7) a statement as to whether the annual results have been reviewed by the audit committee of the listed issuer;
- (8) where the auditors are likely to issue a modified report on the listed issuer's annual financial statements, details of the modification;
- (9) where there are any significant changes in accounting policies, a statement of that fact must be made; and

Note: A listed issuer should apply the accounting policies consistently except where the change in accounting policy is required by an accounting standard which came into effect during the financial year.

- (10) where there are prior period adjustments due to correction of material errors, a statement of that fact must be made.

Note: The term financial year refers to the period covered by a listed issuer's financial statements even where the period is not a calendar year.

- 18.50A Where, in exceptional circumstances, it becomes necessary to revise the information contained in the listed issuer's preliminary announcement of results in the light of developments arising between the date of publication of the announcement and the completion of the audit, the listed issuer must immediately notify the Exchange and publish an announcement to inform the public. The announcement must provide details of the changes made to the published preliminary announcement of results including any impact on the published financial information of the listed issuer and the reasons for such changes.

Note: The Exchange does not expect there to be any material or substantial difference between the information contained in the listed issuer's preliminary announcement of results and that contained in its audited results.

- 18.50B The preliminary announcements of results for the half-year, preliminary announcements of results for the financial year, half-year reports and annual reports of a listed issuer must include the disclosures required under the relevant accounting standards adopted and contain the information set out below in respect of the group. This information may be included in the notes to the financial statements. In the case of banking companies, the information on results and financial position set out in the Guideline on the Application of the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority must be provided in place of that set out in rules 18.50B(1) and 18.50B(2).

- (1) Statement of profit or loss and other comprehensive income
 - (a) profit (or loss) on sale of properties;

(2) Statement of financial position, if applicable:

- (a) ageing analysis of accounts receivable; and
- (b) ageing analysis of accounts payable;

Note: The ageing analysis should normally be presented on the basis of the date of the relevant invoice or demand note and categorised into time-bands based on analysis used by an issuer's management to monitor the issuer's financial position. The basis on which the ageing analysis is presented should be disclosed.

(3) Dividends

Rates of dividend paid or proposed on each class of shares (with particulars of each such class) and amounts absorbed thereby (or an appropriate negative statement).

Notes: 1 Where the items of information specified in this rule are unsuited to the listed issuer's activities, appropriate adaptations should be made. Where the requirements of this rule are unsuited to the listed issuer's activities or circumstances, the Exchange may require suitable adaptations to be made.

2 The Exchange may authorise the omission from the preliminary announcement of any information if it considers:—

(a) such omission to be necessary or appropriate; or

(b) disclosure of such information would be contrary to the public interest or seriously detrimental to the issuer,

provided that such omission would not be likely to mislead the public with regard to facts and circumstances, knowledge of which is essential for the assessment of the securities in question.

3 The issuer or its representatives will be responsible for the correctness and relevance of the facts on which any application for an exemption under Note 2 above is based.

18.50C Listed issuer must submit a copy of its annual report to the Exchange for publication on the GEM website as soon as reasonably practicable after the approval by or on behalf of the board of its audited financial statements and in any event not more than 3 months after the date upon which the financial year ended.

18.51 [Repealed 1 March 2019]

18.52 [Repealed 31 December 2015]