The guidance on reports on working capital requirements (paragraphs 67 to 71) and reports on borrowings (paragraphs 72 to 75) in this AG 3.340 is applicable for engagements where the investment circular is dated before 1 July 2014. For engagements where the investment circular is dated on or after 1 July 2014, HKSIR 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" is applicable, with early adoption permissible.

STATEMENT 3.340
AUDITING GUIDELINE
PROSPECTUSES AND THE REPORTING ACCOUNTANT

(Issued October 1974; revised February 1988, May 1992, September 2004 (name change) and April 2014)

Introduction

1. This Guideline contains recommendations on certain aspects of the reports required to be given by accountants for the purpose of inclusion in prospectuses, offers for sale and similar documents. It is recognised that the form in which such reports are submitted to directors or promoters is (subject to compliance with the Companies Ordinance and Listing Rules of the Stock Exchange) a matter within the discretion of the reporting accountant. This Guideline is issued as recommendations of best current practice and should be read in conjunction with the Statements of Auditing Standards and the related Auditing Guidelines.

2. The comments and recommendations are general in character and deal with matters of principle rather than with details of statutory and Stock Exchange requirements in relation to accountant's reports for prospectuses (which, where appropriate, should be read as including statements in lieu of a prospectus, offers for sale and similar documents). It is the first duty of the accountant undertaking the preparation of such a report to study and comply with these requirements.

3. There is often some confusion concerning the references in the Companies Ordinance and Listing Rules to the person(s) making reports under these regulations.

   a. The Third Schedule to the Companies Ordinance refers to three types of report:

      i. in paragraph 31:

         by " the auditors of the company and of any guarantor company ":

         to be made on specified matters concerning the company issuing the prospectus (and of any guarantor company);

      ii. in paragraph 32:

         by "accountants":

         to be made on specified matters concerning a business being acquired by means of the issue or its proceeds; and

      iii. in paragraph 33:

         by "accountants":

         to be made on specified matters concerning a company which would become a subsidiary by being acquired by means of the issue or its proceeds.

   The first reference to "the auditors of the company" means that the report must be made by the statutory auditor(s) of the company appointed under section 131 of the Companies Ordinance. However the report may be made jointly with another accountant who need not be the company's statutory auditor. Although the plural "auditors" in the Third Schedule is not generally taken to refer to joint audits, where a company has joint statutory auditors both or all of these must be signatories to the report. The references in paragraphs 32 and 33 to "accountants (who shall be named ....)" mean that these two reports may be made by accountants other than the statutory auditor, provided they are qualified under the Professional Accountants Ordinance for appointment as auditors of a company.

b. The Listing Rules refer to the qualification requirements of a professional accountant qualified under the Professional Accountants Ordinance but do not make the same distinction between "auditor" and "accountants". However, it must be assumed that it is not the intention of the Listing Rules to conflict with the Companies Ordinance. Thus,

   i. the report by the "reporting accountants" under paragraph 4.01 of the Listing Rules and hence paragraph 37 of Part A of Appendix 1 to the Listing Rules will normally be made by the statutory auditors; and

   ii. the reports by "auditors" under paragraphs 14.08 and 14.15 of the Listing Rules will normally be made by the statutory auditors; however,

   iii. for consistency with the Companies Ordinance, a report under paragraph 4.01(3) of the Listing Rules on a business or company being acquired need not be made by the statutory auditor, notwithstanding the absence of any direct reference in that paragraph to the persons making the report.

4. In order to distinguish between reports in connection with prospectuses and those in connection with statutory and similar audits, for the purposes of this Guideline:

   a. unless indicated to the contrary, the terms "reporting accountant" and "accountant's report" cover references to both the auditor and accountant in the Third Schedule and the equivalent reference in the Listing Rules; and

   b. the term "auditor" and "audit" refers to the statutory auditor and the statutory audit.

5. Although there are similarities, a reporting accountant's responsibilities and the procedures he will apply in carrying out his work are not identical to those in an audit. The appointment of an auditor is made under the Companies Ordinance and his duty under that law is to examine and report on the accounts of a company to its members. The report is in the form of an opinion on whether the accounts are prepared in accordance with the Ordinance and whether they present a true and fair view of the profit and state of affairs of the company. He is also to report that proper books have not been kept or that the accounts do not agree with the books, if he is of that opinion. These opinions are extended to consolidated financial statements if applicable.

   On the other hand, the reporting accountant for prospectuses is required to provide an independent statement of financial information for the company and the group (if applicable) concerned. This statement, which is to be supported by an opinion together with the other information in the prospectus supplied by the company and its independent valuers may assist potential investors in making a decision on whether or not to take up the offer or invitation to invest in the company or group which issues the prospectus.

6. Examples of similarities in the responsibilities of the reporting accountant and the auditor are:

   a. a "true and fair view" opinion is usually included in accountant's reports. Although the Ordinance does not specifically require the reporting accountant to express an opinion as to whether the financial information contained in his report gives a true and fair view, it is a requirement under paragraph 4.08 of the Listing Rules to include such an opinion with regard to the results for the period reported on and to the assets and liabilities at the end of that period; and

   b. the accountant's report requires the same skill and care as an audit report.

Definition of terms

7. *Accountant's Report:*
   A report by a qualified professional accountant required by the Third Schedule to the Companies Ordinance and/or paragraph 4.01 of the Listing Rules for inclusion in prospectuses or circulars.

Adviser:
A merchant bank, issuing house or stockbroker appointed by a company to assist in preparing a prospectus.

Auditors' Report:
A report by a qualified professional accountant on the financial statements of a company in accordance with the requirement of section 141 of the Companies Ordinance.

Circular:
A circular or press release issued by a listed company as required by the Listing Rules and which does not constitute a prospectus.

Listing Rules:
The "Rules Governing the Listing of Securities" issued by the Stock Exchange.

Prospectus:
A prospectus has the same meaning as under section 2 of the Companies Ordinance: viz. "prospectus" means any prospectus, notice, circular, brochure, advertisement, or other document -

a. offering any shares or debentures of a company to the public for subscription or purchase for cash or other consideration; or
b. calculated to invite offers by the public to subscribe for or purchase for cash or other consideration any shares or debentures of a company.

Reporting Accountant:
An independent accountant engaged in preparing a report for inclusion in a prospectus or circular.

Securities Rules:
The Securities (Stock Exchange Listing) Rules 1989, as amended by the Securities (Stock Exchange Listing) (Amendment) Rules 1991.

Stock Exchange:
The Stock Exchange of Hong Kong Limited.

Third Schedule:
The Third Schedule to the Companies Ordinance.

Prospectuses

8. A prospectus is an invitation to the public to subscribe for, or to purchase, shares or debentures in a company. A prospectus is required when a company is applying for admission to listing or, if it is already listed, wishes to issue additional or a new class of shares or debentures. The basic form and content of prospectuses are determined by the Third Schedule and the Listing Rules but the detailed contents will vary according to the circumstances in which they are issued.

9. When a listed company proposes certain types of transaction it may be required by Chapter 14 (Notifiable Transactions) of the Listing Rules to issue a circular to its shareholders, to inform them of the proposal and, in some cases, to obtain theirapproval. This is necessary, for example, when a substantial acquisition or disposal of assets is being made. An accountant's report may be required to be included in the circular. The principles contained in this Guideline with reference to prospectuses also apply to the preparation of accountant's reports for inclusion in such circulars.

10. This Guideline does not attempt to reproduce or summarise the Third Schedule or the Listing Rules, and it should therefore be read in conjunction with them. The reporting accountant will need to be familiar with these regulations which govern the minimum contents of the particular type of document of which his report will form a part. However, in some circumstances the contents will extend beyond the minimum required by the regulations.

11. The directors and promoters of the company issuing shares or debentures to the public are assigned full responsibility by the Companies Ordinance for the completeness and accuracy of the information contained in the prospectus. The prospectus must include information on the company's financial affairs and will also include reports by "experts", one of whom is the reporting accountant. The adviser to the issue will coordinate the preparation of the prospectus and any reports which it will contain.

12. The adviser may require the reporting accountant to prepare a detailed report covering various aspects of the company's business, including its management, profit record, assets and liabilities, and prospects. This work is a separate engagement to that of reporting accountant and gives rise to a "long-form" report to the adviser. This type of engagement is outside the scope of this Guideline. However, the work performed in producing this "long-form" report often forms the basis of the reporting accountant's assurance in making his accountant's report to be included in the prospectus (the short-form report).

13. Where a profit forecast is included in a prospectus or circular the reporting accountant is normally required to examine and prepare a separate report on the accounting policies and calculations used in the forecast. Guidance on this subject is given in Statement 3.341 "Accountants' report on profit forecasts" and is not dealt with in this Guideline.

The accountant's report

14. The accountant's report gives an independent statement, normally supported by an opinion, of financial information for the company concerned or, if it has subsidiaries, for the group, which together with the other information in the prospectus may assist potential investors in making the decision whether or not to invest.

15. The minimum information to be included in the accountant's report is set out in the Third Schedule and Chapter 4 of the Listing Rules. The reporting accountant should refer to the appropriate regulations to determine the detailed requirements.

    The minimum requirements set out in Chapter 4 include:

    a. notes to the profit and loss accounts and balance sheets;

    b. accounting policies on which the financial information has been prepared;

    c. earnings per share data in support of the report of dividend history (if relevant); and

    d. the reporting accountant's opinion as to whether the financial information gives a true and fair view.

    The above list illustrates only the principal items which will appear in the accountant's report, and it is not intended to be exhaustive. According to the circumstances of the prospectus additional information may be necessary or requested.

The reporting accountant

16. As noted in paragraph 3 of this Guideline:

    a. the auditor may be appointed to act alone or jointly with another accountant with regard to any of the reports required by the Third Schedule; and

    b. the reporting accountant need not be the auditor for the reports required by paragraphs 32 and 33 of the Third Schedule.

    In any event a reporting accountant should be independent of the company to the same extent as an auditor.

17. Where the auditor is appointed as reporting accountant, the audit partner should wherever possible involve another partner who is not connected with the audit engagement, so as to provide a fresh view of the matters reported on. To minimise duplication of effort, this second partner need only assist at important stages of the work. For example, he should participate in agreeing the principal terms of the engagement letter, planning the work to be carried out, reviewing the draft prospectus, and agreeing the treatment of any contentious matters.

18. When the auditor is appointed as joint reporting accountant for the purposes of paragraph 31 of the Third Schedule, or is not appointed as either sole or joint reporting accountant for the purposes of paragraphs 32 and 33 of the Third Schedule, he should be aware that the joint or sole reporting accountant will need access to information contained in his audit files. In principle, therefore, the auditor should be prepared to cooperate with the other reporting accountant and to make available to him such information as he may require for the purpose of this report.

Procedures

19. The principles set out in Statement of Auditing Standard 3.101 "Audit approach" are generally appropriate to the conduct of the reporting accountant's work. The following procedures amplify those given in the Guidelines which support the Standard, and which are applicable to this type of engagement.

Planning, controlling and recording

20. The reporting accountant should agree the terms of his engagement with the company, and also with the adviser. This should be done even where the reporting accountant has an existing audit engagement with the company. The principles contained in Statement 3.270 "Engagement letters" should be applied, with appropriate modifications. An engagement letter should be prepared, dealing with, inter alia:

    a. the preparation of any long-form report;

    b. the audit of any interim accounts which may be necessary;

    c. the preparation of an accountant's report for inclusion in the prospectus or circular;

    d. the nature of any comfort letters required in relation to the directors' statements concerning borrowings, the adequacy of working capital, or other financial information;

    e. the review of any profit forecasts and the preparation of an accountant's report thereon to be included in the prospectus with the forecasts;

    f. the reporting accountant's need to have the opportunity to attend meetings at which the prospectus will be drafted, to receive draft copies of the prospectus, and generally to be satisfied with the form and context of his report in the final version before giving his consent to the issue of the prospectus;

    g. the timescale for preparation and publication of the prospectus, and the deadlines which are to be met; and

    h. the reporting accountant's need to be able to communicate with the company's auditors if applicable and other professional advisers.

    The reporting accountant should request that the engagement letter is acknowledged and confirmed in writing.

21. When joint reporting accountants are appointed the detailed work involved in preparing the accountant's report may, for practical reasons, be divided between them. This should be agreed between the joint reporting accountants, and may form part of the engagement letter. However, irrespective of any such arrangement, the joint reporting accountants are jointly and severally responsible for the entire accountant's report. Accordingly, the firms of accountants should liaise with each other on a regular basis, having particular regard to any problems which are identified. Procedures by which such consultations are to take place should be agreed at the planning stage.

22. In planning the detailed procedures to be carried out, the reporting accountant should conduct a preliminary review of the affairs of the company, and of the financial information which will form the basis of his report. As well as assisting the planning of his work, this review may also indicate whether there may be factors likely to restrict the scope of his work, or give rise to a qualification of his report, or are such that the company or its adviser might decide not to proceed, or the purpose of the prospectus might fail to be achieved. If any such factors are identified they should be reported immediately to the company and the adviser. In practice this preliminary review may often be carried out before the engagement has been formally accepted.

23. The extent of the work which the reporting accountant will need to carry out in relation to his report will be influenced by whether all the financial statements to be reported upon have previously been subjected to audit, and whether the reporting accountant himself audited the financial statements on which the report is to be based.

24. Where the latest completed accounting period reported on by the company's auditors ended more than six months before the date of publication of the prospectus for a new listing, the Stock Exchange's normal requirement regarding the age of the figures reported on will not be satisfied. In these circumstances an audit of financial statements drawn up to an interim date will normally be required.

25. Where other material financial information is to be included in the accountant's report it will be necessary to carry out audit work before it can be included in order to ensure that it can provide a satisfactory basis for his opinion. Audit work will also be required where financial information has been a constituent part of audited financial statements, without having been the specific subject of an audit opinion, eg. the results of a single division or branch of a large company. Even if he does not carry out the detailed additional audit work himself, the reporting accountant should be closely involved in its planning, control and review.

26. The reporting accountant should apply the procedures described in Statement 3.252 "Events after the balance sheet date" to ensure that any significant events between the dates of the latest audited financial statements and publication of the prospectus are identified and correctly reflected in the financial information reported on. These procedures are in addition to those concerning the report required by paragraphs 4.06 (1) and (2) of the Listing Rules on acquisitions made subsequent to the last audited financial statements.

27. The reporting accountant should control and record his work. This will involve the direction and suspervision of his staff and the review of their work, and the preparation of working papers to record the procedures carried out. A large part of the work performed will often take the form of reviewing files and documents, and discussions with the company's management, staff and professional advisers. Particular care should be taken to ensure that the working papers adequately reflect the nature of these procedures, the evidence examined and the conclusions reached.

Evidence

28. The reporting accountant should obtain relevant and reliable evidence sufficient to enable him to prepare the financial information to be included in his report and to form an opinion on that information.

29. To assist the reporting accountant in presenting his report and forming an opinion as to whether the financial information it contains gives a true and fair view, he should review and discuss with management the features and trends of the results during the relevant period.

30. The reporting accountant should review the audit working papers relating to the periods to be covered by his report. Where the reporting accountant was not himself the auditor for these periods, he will need to liaise with the auditor in order to make use of his working papers, and to obtain the information and explanations necessary to answer any questions resulting from this review. The reporting accountant may also seek further clarification from the auditor of any important issues arising from his discussions with management.

31. The object of this review of the audit working papers is to enable the reporting accountant to determine the extent to which he is able to rely on the audit work already performed, and to ascertain whether any further procedures are necessary. Careful consideration should be given to any problems which arose during the audit of the financial statements for the relevant periods, and to the manner in which they were resolved. It must be emphasised that the fact that an audit has been previously carried out does not reduce the responsibility of the reporting accountant for his report and the opinion it contains.

32. As part of his review of the audit working papers, the reporting accountant should undertake a general assessment of the company's accounting systems and records during the period covered by his report, in order to determine their reliability as sources of evidence.

33. The reporting accountant should pay particular attention to any difficult or contentious points which come to light during his discussions with the company's management (or auditors), and to matters critical to the ascertainment of profit or the presentation of results.

34. If the reporting accountant cannot satisfy himself in all material aspects by the procedures outlined above, he may need to undertake further detailed audit procedures. Where it is impracticable for him to carry out auditing procedures relating to earlier years, his reservations should be stated in his report. However, if additional assurance is required by the reporting accountant only in respect of the latest period under review, then it may still be possible to arrange for supplementary audit procedures in the relevant areas to be carried out.

Review of financial statements

35. The reporting accountant will need to review the relevant financial statements at several stages of his work, for example:

    a. as part of his planning and preliminary review procedures (see paragraph 22);

    b. during his review of the audit working papers (see paragraphs 30 to 33); and

    c. in order to determine whether any adjustments are required to the figures for the purposes of his report (see paragraphs 47 to 49).

36. In carrying out a review of the financial statements, the reporting accountant should give special attention to any matters which have resulted in qualified auditors' reports. The Stock Exchange has issued Practice Note No. 3 to lay down its policy with regard to the occurrence of qualified auditors' reports. Where either of the latest two financial statements which relate to the period reported on contains a qualified audit opinion in relation to a matter of significance to investors the Stock Exchange will not normally allow the listing to proceed. Therefore the reporting accountant should advise the directors and advisers at the earliest opportunity. The reporting accountant will need to consider carefully the significance of any such qualifications for his accountant's report. In some cases uncertainties which gave rise to a qualified auditors' report in previous financial statements may have been resolved, and it may therefore be possible to make adjustments to the reported results in order to avoid any need to qualify the opinion in the accountant's report. Where the reporting accountant concludes that he need not, for the purposes of his report, repeat a previously qualified audit opinion, he should indicate in his accountant's report how the matter was resolved - for example as a result of adjustments made or additional procedures carried out.

37. The reporting accountant will need to review the appropriateness of all the accounting policies, as well as their compliance with Statements of Standard Accounting Practice and the consistency of their application. Wherever practicable all the financial information included in the accountant's report should be set out on the basis of the current accounting policies, ie. the policies to be adopted for the current accounting period.

38. The use of analytical review procedures as part of the review of the financial statements will enable the reporting accountant to form a better understanding of the nature of the business and of the principal factors influencing its development during the relevant period. Any unusual features or unexpected fluctuations need to be adequately explained if the reporting accountant is to obtain the assurance he needs for his report.

Adjustments to reported figures

Background to adjustments

39. The financial information included in the accountant's report should be based on the audited financial statements for the periods reported on. However, in order to ensure that the financial information is presented on a consistent and comparable basis the reporting accountant may need to make adjustments to the figures previously reported in the financial statements.

40. The number of adjustments should be kept to the minimum considered necessary by the reporting accountant. Adjustments need only be made if the amounts involved are material.

41. The reporting accountant should state in his accountant's report that all the adjustments he considers necessary have been made, or that no adjustments were necessary.

42. In addition to any adjustments, the reporting accountant should also make such changes to the presentation of information contained in the financial statements as he considers necessary, so that matters of particular importance in the context of the prospectus are given due prominence.

The nature of adjustments

43. Adjustments to previously reported figures should only be made:

    a. to ensure that the financial information for all the years reported on is stated on a consistent basis (see paragraph 44); or

    b. to ensure that the financial information is in all other respects properly comparable, for example, by correcting any fundamental accounting errors in the financial statements of the periods reported on.

44. To enable the financial information to be stated on a consistent basis two different types of adjustment may be required:

    a. Adjustments should be made to ensure that, wherever practicable, all the financial information in the report is stated on the basis of the current accounting policies.

    b. If there has been a change in the group structure in the period reported on (for example, the acquisition or disposal of a subsidiary company or business, or a reorganisation of the group) it may sometimes be appropriate to make adjustments so that the effects of the change on the results of the group and its state of affairs do not distort the financial information. (Some examples of this type of adjustment are given in Appendix 3.)

45. If the auditors' report on the financial statements of one of the periods reported on was qualified, the reporting accountant may be able to make adjustments so that the financial information in his accountant's report gives a true and fair view, and thus avoid the need to qualify his opinion on the financial information. For example, if the qualification was due to the uncertainty surrounding a material accounting estimate, the reporting accountant may, with the benefit of hindsight, have sufficient information to correct the estimate if it was subsequently shown to be materially incorrect. However the Stock Exchange has stated in Practice Note No. 3 that it would not normally consider a trading record acceptable if either of the auditors' reports on the financial statements of any of the latest two financial periods contains a qualification relating to a matter of significance to investors. The reporting accountant should therefore inform the directors and advisers at the earliest opportunity with a view to seeking the advice of the Stock Exchange as to whether it considers the matters to be of significance to investors. The reporting accountant will then need to consider carefully the impact of any qualifications on his accountant's report.

46. However, although adjustments may be made in respect of accounting policies, adjustments should not normally be made to the company's accounting estimates, provided there were no fundamental errors. The effect of correcting an estimate in a later period should normally be reflected in the result of that period. The reporting accountant should consider whether separate disclosure in the profit and loss tabulations as an exceptional item is necessary. Consideration should also be given to any additional disclosure which may be necessary by way of notes.

The statement of adjustments

47. The Listing Rules require the reporting accountant to sign a "statement of adjustments" showing, with reasons, how the audited financial statements have been adjusted, to arrive at the figures in his report. Although no particular format is required for the statement, it should be sufficiently detailed to reconcile the figures in the audited financial statements with those in the accountant's report. The preparation of a statement of adjustments satisfies the requirements of paragraph 42 of the Third Schedule provided that the figures in the accountant's report are stated as being after making such adjustments as are considered appropriate.

48. For clarity, material reclassifications of balance sheet items are normally included in the statement of adjustments, even where they do not affect the results of any of the periods reported on.

49. The Stock Exchange requires the statement of adjustments (if any) to be made available for public inspection. In addition, the statement of adjustments for a listed company would normally be submitted with the prospectus to the Registrar of Companies and the Listing Division of the Stock Exchange.

Reporting

50. The reporting accountant should address his report jointly to the directors of the company and to the adviser.

51. The accountant's report should be dated. The date used by the reporting accountant should be that on which the directors authorise the issue of the prospectus.

52. The reporting requirements regarding the financial information are contained in the regulations relevant to the type of prospectus being prepared. Paragraphs 53 to 58 below are concerned with the general principles to be followed by the reporting accountant in expressing his opinion on the financial information.

The reporting accountant's opinion

53. The opinion is usually situated near the beginning of the report, together with a number of other matters, which collectively form an intro-duction to the statement of financial information.

54. This introduction should also identify:

    a. the entity being reported on (see paragraph 55);

    b. the auditors of the financial statements throughout the period; and

    c. whether any financial statements have been prepared for submission to the members for accounting periods later than the last period covered by the report.

55. In order that the entity being reported on may be clearly defined, it may be necessary to give details of the group structure, significant changes during the period, and any reorganisation which has taken place since the date of the last audited financial statements. Where there has been a change in company name during the period or recent times, this should also be explained. If this information is complex and results in a paragraph which is disproportionately long in the context of the introduction section as a whole, it may be appropriate to include it as a separate paragraph in a prominent position elsewhere in the accountant's report. This would normally state the basis of presentation. For example, that the accounts have been prepared as if the present group structure had been in place throughout the relevant period.

56. The reporting accountant's opinion should draw attention to the following matters:

    a. that the financial information is based on the audited financial statements of the company and its subsidiary companies;

    b. that all adjustments considered necessary by the reporting accountant for the purpose of his report have been made (or that no adjustments were considered necessary);

    c. that the reporting accountant has carried out his work in accordance with this Guideline; and

    d. whether or not the financial information gives a true and fair view.

57. Examples of the introductory and opinion section of the report are attached as Appendix 1.

58. If the reporting accountant has reservations on any material matters, then his accountant's report must be qualified. All reasons for the qualification must be stated, together with the amounts involved if this is relevant and practicable. Statement 3.102 "The audit report" should be followed. The reporting accountant should be aware that in practice a "qualification relating to a matter of significance to investors" which casts doubt on the reported profits or the balance sheet figures would normally render the prospectus unacceptable to the Stock Exchange under Listing Rules 4.18 and Practice Note No. 3. Therefore, if any matter comes to his attention which could give rise to a qualification of his accountant's report, he should assess its likely effect and advise the directors and the adviser at the earliest opportunity.

Letters of consent

59. If a prospectus contains any statement purporting to be made by an expert, the expert must have given and not withdrawn his consent to the issue of the prospectus with the statement in the form and context in which it is included. A statement to the effect that he has given and not withdrawn his consent must be made in the prospectus. The reporting accountant is one of the experts coming within the scope of this requirement.

60. Financial and other information is contained throughout a prospectus and not only in the accountant's report. Whilst the reporting responsibility of the reporting accountant does not extend beyond his own report, he should consider the document as a whole. He should be satisfied that nothing contained within the prospectus as a whole is inconsistent with the information in his report, and that all relevant matters which have come to his attention have been properly reflected. In particular he should take steps to make himself aware of all the principal issues arising during the drafting of the prospectus. He should give consent to the publication of the prospectus containing his report only if he is satisfied with the form and context in which his report appears in the published document.

61. An appropriate form of letter of consent to the directors of the company and the advisers is attached as Appendix 2.

62. The reporting accountant's letter of consent should be dated with the same date as the prospectus. It should be noted that the letter of consent is filed with both the Registrar of Companies and the Stock Exchange and is also available for public inspection.

63. If, at any time before allotment takes place under the prospectus, the reporting accountant becomes aware that the prospectus contains an untrue statement purporting to be made by him, he should withdraw his consent in writing, and give reasonable public notice of the withdrawal and the reasons for it.

Comfort letters

64. In addition to preparing an accountant's report as prescribed by the relevant regulations, the reporting accountant may be required by the directors of the company or by the adviser to prepare reports on a number of other matters. These reports, known as "comfort letters", are not intended for publication, and are not required by the Companies Ordinance or the Listing Rules. The scope of such reports is entirely at the discretion of the directors of the company and the adviser, and should normally be agreed in the engagement letter.

65. The purpose of these additional reports is to provide independent assurance regarding financial information included in the prospectus other than as part of the accountant's report.

66. Comfort letters are usually required in relation to the directors' statement included in the prospectus concerning:

    a. the adequacy of working capital; and

    b. the aggregate of borrowings or indebtedness at the latest practicable date.

    These are considered in more detail in the following paragraphs. Other matters which may be the subject of comfort letters include:

    i. any pro-forma financial statements shown in the prospectus to indicate the effect of a major acquisition or reorganisation of the group; in so far as these are not included in the accountant's report.

    ii. taxation clearances and indemnities;

    iii. whether there have been any changes of circumstances; and

    iv. any other financial information, wherever it is situated in the prospectus.

    The reporting accountant's responsibility in respect of profit forecasts included in the prospectus is referred to in paragraph 13 and set out in Statement 3.341 "Accountants' report on profit forecasts".

Reports on working capital requirements

67. The Stock Exchange requires that the directors of the company state that in their opinion the company's working capital is sufficient for the requirements of the business or, if not, how it is proposed to provide the additional working capital thought by the directors to be necessary. The directors are solely responsible for this statement. However it is common for the directors and the adviser to ask the reporting accountant to review and report to them on the cash flow forecast prepared for this purpose, and this may include a request for a commentary on the assumptions on which it is based. Where the reporting accountant is also requested to prepare or assist in the preparation of the cash flow forecasts the partner responsible should wherever possible ensure that staff involved in the preparation are not also involved in the review and reporting functions so as to provide a fresh view of the matters reported on.

68. The approach to such an assignment involves obtaining and reviewing the forecasts prepared by the management of the company and comparing the cash flow shown by these forecasts with the facilities and resources available, or to become available, to the company. The extent of the facilities and resources available should normally be confirmed directly to the reporting accountant by the appropriate third party.

69. The forecasts should normally cover at least one year from the date of the prospectus and should include forecasts of profit, cash flow and financial position at the end of the period together with detailed assumptions used in their preparation. In addition to checking the arithmetical accuracy of the forecasts and that they are properly derived from the stated assumptions, the reporting accountant will also need to review the assumptions. If any assumption appears to be unrealistic, or if any important assumption has not been stated, he should consider drawing attention to it in his comfort letter. The degree of review required will in part depend on whether forecasts made in the past have proved reliable, and on the extent of the surplus of resources over the estimated cash flow requirements.

70. As the directors have sole responsibility for their statement regarding the adequacy of working capital, the reporting accountant should satisfy himself that they have considered all the relevant information with due care. He should ensure that the directors' approval of the working capital forecasts and the underlying assumptions is recorded in the board minutes.

71. The report should clearly identify the information on which it is based. The form of the report will usually be that in the opinion of the adviser the directors' statement has been made with due care and the forecast is properly compiled on the basis of the underlying assumptions.

Reports on borrowings

72. The Third Schedule and the Stock Exchange require disclosure of details of any loan capital, borrowings, mortgages or charges and indebtedness and contingent liabilities, as at the most recent practicable date or an appropriate negative statement. In this context borrowings include bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, and other guarantees. Significant finance lease commitments should also be stated.

73. In determining the amount of bank indebtedness, the figure in the cash book should be used. The figures appearing in the cash book and the bank statement should be reconciled and the reporting accountant should investigate any unusual or large uncleared items and consider referring to them in his comfort letter.

74. The date at which borrowings and bank indebtedness are stated will not usually be the end of an accounting period. Therefore audited financial statements are unlikely to be available, and the reporting accountant will have less evidence on which to base his opinion concerning the figure for borrowings than he would at the end of an accounting period. In these circumstances he will have to place substantial reliance on management as to the identification of those parties from whom there are outstanding borrowings and whether these are secured. These should be substantiated by direct confirmation from the lenders of the amounts outstanding at the relevant date. In view of the reliance placed on these representations, the reporting accountant should ensure that they are formally confirmed by the directors and recorded in the board minutes.

75. The report should clearly identify the information on which it is based, and should refer to the following :

    a. without carrying out an audit, the reporting accountant's procedures cannot necessarily be expected to reveal all significant matters concerning borrowings;

    b. reliance has been placed on the representations of management as to the completeness of the amounts shown in the statement of borrowings; and

    c. nothing has come to the reporting accountant's attention to indicate that any adjustments should be made.

APPENDIX 1

Example accountant's reports

The following are examples of accountant's reports which may be applicable to particular circumstances. The examples are for general guidance only.

Example 1: Where the reporting accountant acted as auditor for the whole of the relevant period.

Audit & Co.,
Hong Kong.
(letter head)
19 March 19X2

The Directors,
ABC Limited,
Investment Bankers Limited.

Dear Sirs,

We have examined the audited financial statements of ABC Limited ("the Company") and its subsidiaries (together "the Group") for the ...... years ended 31 December 19X1 in accordance with the Auditing Guideline "Prospectuses and the reporting accountant".

We have acted as auditors of the company and all of its subsidiaries throughout the period covered by this report.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 19X1.

The financial information set out in paragraphs ..... to ..... below is based on the audited financial statements of the Group after making such adjustments as we consider appropriate.

In our opinion, the financial information, for the purpose of this report, and on the basis of presentation set out below gives a true and fair view of the results of the Group for the ...... years ended 31 December 19X1 and of the assets and liabilities of the Company and the Group at 31 December 19X1.

(THE FINANCIAL INFORMATION)

Yours faithfully,

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

Note: 1. The relevant period would normally be five years but may be:

a. shorter:

i. by permission of the Registrar General and the Listing Committee; or

ii. because the company has been incorporated for less than five years.

b. longer:

if the last financial reporting period was more than six months prior to the reporting date and interim financial statements have been prepared and included in the report.

2. The Stock Exchange considers a trading record of three years to be sufficient for determining a company's ability to be listed.

3. It is also relevant to note developments in this area. It is planned to amend the Companies Ordinance so that the Securities & Futures Commission rather than the Registrar General is given the power to shorten the relevant period.

Example 2: Where the reporting accountant acted as auditor for part of the relevant period.

Audit & Co.,
Hong Kong.
(letter head)
1 April 19X2

The Directors,
DEF Limited,
Investment Bankers Limited.

Dear Sirs,

We have examined the audited financial statements of DEF Limited ("the Company") and of its subsidiaries (together "the Group") for the ...... years ended 31 December 19X1, in accordance with the Auditing Guideline "Prospectuses and the reporting accountant".

We have acted as auditors of the Company for the financial periods from 1 April 19X0 to 31 December 19X1 and of its subsidiaries for the periods from their respective dates of incorporation to 31 December 19X1. The financial statements of the Company for the year ended 31 March 19X0 were audited by CPA & Co. The financial statements of the Company for the prior financial periods were audited by Test & Co.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 19X1.

The financial information set out in paragraphs ...... to ...... below is based on the audited financial statements of the Group after making such adjustments as we consider appropriate.

In our opinion, the financial information, for the purpose of this report and on the basis of presentation set out below, gives a true and fair view of the results of the Group for the ...... years ended 31 December 19X1 and of the assets and liabilities of the Company and the Group at 31 December 19X1.

(THE FINANCIAL INFORMATION)

Yours faithfully,

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

Example 3: Where one of the joint reporting accountants is not the auditor.

Audit & Co.,
Hong Kong.
(letter head)

CPA & Co.
Hong Kong.
(letter head)
1 March 19X2

The Directors,
GHI Limited,
Investment Bankers Limited.

Dear Sirs,

We have examined the audited financial statements of GHI Limited ("the Company") and its subsidiaries (together "the Group") for the ...... years ended 31 December 19X1 in accordance with the Auditing Guideline "Prospectuses and the reporting accountant".

CPA & Co. have acted as sole auditors of the Company and all its subsidiaries throughout the period covered by this report.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 19X1.

The financial information set out in paragraphs ...... to ...... below is based on the audited financial statements of the Group after making such adjustments as we consider appropriate.

In our opinion, the financial information, for the purpose of this report and on the basis of presentation set out below, gives a true and fair view of the results of the Group for the ...... years ended 31 December 19X1 and of the assets and liabilities of the Company and the Group at 31 December 19X1.

(THE FINANCIAL INFORMATION)

Yours faithfully,

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

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

APPENDIX 2

Specimen consent letter for an accountant's report for inclusion in a prospectus

An appropriate form of a letter of consent may be as follows:

Audit & Co.
Hong Kong.
(letter head)
19 March 19X2

The Directors,
ABC Limited,
Investment Bankers Limited.

Dear Sirs,

We hereby consent to the issue of the prospectus dated 19 March 19X2 issued in connection with ...., with the inclusion therein of our report dated 19 March 19X2 and the references thereto, and the references to our name, in the form and context in which they appear. We attach a copy / final proof of the document initialled by us for the purpose of identification.

Yours faithfully,

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

Note: The letter of consent should carry the same date as the prospectus.

APPENDIX 3

Examples of adjustments following changes in group structure

The purpose of this Appendix is to illustrate some of the types of adjustments which may be made to previously reported figures for the purpose of the accountant's report, arising as a result of changes in the group structure. The examples given are not an exhaustive list, and the treatments described are not definitive. In any particular case the reporting accountant will need to consider carefully the suitability of adjustments in the light of the specific circumstances.

1. Results and balance sheets

It may be appropriate to prepare the financial information on the following basis:

a.	Acquisition by issue of share capital during the period reported upon.	Include the results of the acquired entity for the whole period.

There may be difficulties in presenting the balance sheets due to differences in year-ends or the inability to attribute fair values to periods prior to acquisition. Therefore, adjustment may not be appropriate. However, the notes in the accountant's report should provide a reconciliation of movements on reserves and the table of results. Additional information may also be necessary to ensure that the balance sheets give a true and fair view of the financial position.

b.	Acquisition subsequent to the period reported upon.	Present the financial information on the acquired entity as a separate section in the accountant's report.

It should also be noted that the Third Schedule and the Listing Rules require an accountant's report to be prepared for any business or company to be acquired out of the proceeds of a share issue to the public.

c.	Acquisition for cash during the period reported upon.	Include the results of the acquired entity from the date of acquisition.

Consideration should also be given to disclosing separately the results of the acquired business for the periods prior to acquisition.

d.	Acquisition for a combination of cash and shares during the period reported upon.	Include the results of the acquired entity for the whole period.

Consideration should be given to an adjustment for notional interest on the cash element of the purchase price for the period prior to the acquisition date.

e.	Disposals of a subsidiary or discontinuation of a material section of the business.	Show separately the results of that section of the business in the profit and loss table.
f.	Reorganisations prior to issue of shares to the public.	Where, for example, companies under common control but legally unconnected are formed into a legal group prior to issue or flotation, the accountant's report should be prepared on a combined basis and should explain fully the basis of preparation in the introductory paragraphs of the report.

2. Earnings per share (if included)

Consequential adjustments may arise in calculating earnings per share for each period covered by the accountant's report. The principles in SSAP 5 should be followed as far as practicable. If an acquisition has been made for shares, the number of shares used in the calculation would normally be increased throughout the period covered by the accountant's report even if acquisition accounting was applied in the statutory financial statements. This would correspond to the increase in reported earnings reflecting the results of the acquired business.

Difficulties may result where there has been a capital reconstruction since the date of the last audited financial statements. When calculating earnings per share it may be appropriate to employ the number of shares in issue immediately prior to the issue to the public.

3. Accounting policies

Where a report is being prepared on an entity which is being acquired by another, consideration should be given to applying the accounting policies to be adopted as a result of the change in ownership. Adjustments should be made to earlier years' figures, if necessary, to show the results for all periods on the same basis. If it is not practicable to make the adjustments, the policies adopted in the earlier and later years, and the effect in the year of change, should be stated.