



30 September 2005

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

Exposure Draft Proposed Practice Note “Guidance for Auditors Regarding Preliminary Announcements of Annual Results”

Comments to be received by 31 October 2005

***Issued by the Council,
Hong Kong Institute of Certified Public Accountants***

The Hong Kong Institute of Certified Public Accountants' Council (Council) has issued for consultation an Exposure Draft of proposed Practice Note – *Guidance for Auditors Regarding Preliminary Announcements of Annual Results*.

Council invites comments on the Exposure Draft from any interested party and would like to hear from both those who do agree and those who do not agree with the proposals contained in the Exposure Draft. Comments should be supported by specific reasoning and should preferably be submitted in written form.

The Exposure Draft is available at:

www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/prelimannouncements.pdf

Comments are requested to be received by **31 October 2005** and may be sent by mail, fax or e-mail to:

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

30 September 2005
Exposure Draft

Response Due Date
31 October 2005

Draft Practice Note

Guidance for Auditors Regarding Preliminary Announcements of Annual Results



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

GUIDANCE FOR AUDITORS REGARDING PRELIMINARY ANNOUNCEMENTS OF ANNUAL RESULTS

(Response Due Date 31 October 2005)

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This Exposure Draft may be filed in the “Exposure Drafts, Invitations to Comment” section of Volume III of the Institute’s Members’ Handbook.

A copy of the Exposure Draft can also be found on the Institute’s website at:
www.hkicpa.org.hk/professionaltechnical/assurance/exposedraft/prelimannouncements.pdf.

EXPOSURE DRAFT

PROPOSED PRACTICE NOTE

**GUIDANCE FOR AUDITORS REGARDING PRELIMINARY
ANNOUNCEMENTS OF ANNUAL RESULTS**

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 full financial year. This Practice Note:
 - (a) addresses the requirement for an issuer listed on the SEHK to obtain its auditors' agreement with the listed issuer's preliminary announcement of its results under Main Board (Rule 13.49(2)) and GEM (Rule 18.49) Listing Rules on Preliminary announcement of results for the financial year and provides guidance on the nature and scope of such agreement; and
 - (b) emphasizes the need for auditors to consider the way in which additional information accompanying the preliminary results announcement (for example: highlights, Chairman's Statement, narrative disclosures, management commentary, etc), is presented in preliminary announcements before reporting their agreement in respect of the preliminary results announcement.
2. Preliminary announcements play 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 announcements are relied on to provide timely, sufficient and accurate information to ensure an orderly and efficient market. Preliminary announcements form one of the focal points for investor interest, primarily because they confirm or update market expectations. Because of this the auditors of listed issuers 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 full 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 Rule 13.49(2) and GEM Listing Rule 18.49 to publish a preliminary announcement of the annual results which shall have been agreed with its auditors before it is published. This requirement is effective for annual results announcements for accounting periods commencing on or after 1 July 2004.
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 the auditors before they give their agreement. This Practice Note provides guidance on the procedures that would normally be carried out by the 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 disclosing the preliminary announcement of its results, issuers are also required to provide additional information to accompany their preliminary results announcement. In this regard, auditors are to note that they are not required to report on the additional information to accompany the preliminary results announcement. However, the auditors' work in respect of the

additional information accompanying the preliminary results would be carried out in accordance with the procedures set out in SAS 160 “Other information in documents containing audited financial statements” or HKSA 720 “Other Information in Documents Containing Audited Financial Statements”, which would be similar to their reading of other information in the Annual Report.

7. There is an expectation that the information in a preliminary announcement will be consistent with that in the audited financial statements. The risk of later changes to the figures in the preliminary announcement is not completely extinguished unless the preliminary announcement is issued at the same time that the full financial statements are approved by the directors and the auditors have signed their opinion on them.
8. To help ensure that the draft preliminary announcement of results that has been agreed by the auditors has in fact been approved by the directors without any further amendments or that the 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 the results and the draft financial statements supporting the preliminary statement of annual results. Alternatively, auditors obtain a copy of the board minutes approving the preliminary announcement of the results and the draft financial statements; and
 - (b) Attach a set of the draft financial statements of the listed issuer approved by the directors in the letter to directors indicating their agreement with respect to the preliminary announcement of the results.

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

9. This Practice Note provides guidance to auditors on interpreting the expression “advanced stage”.
10. There is no requirement for a preliminary announcement 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 as a whole. However, to avoid possible misunderstanding and to make explicit the scope of their agreement to the preliminary announcement of the results, the auditors would issue a letter to the listed issuer signifying their agreement (see Appendix 1).

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 45 and 45A of Appendix 16 in relation to Preliminary announcement of results for the financial year.

GEM

12. Appendix 4 sets out sections 18.49 to 18.52 of the GEM Listing Rules in relation to Preliminary announcement of results for the financial year.

Terms of engagement

13. It is in the interests of both the auditors and the listed issuer that the auditors' role in respect of preliminary announcement 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 the results.
14. In circumstances where the auditors are to agree to a preliminary announcement of the 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 in the light of audit findings or other developments occurring before the completion of the audit.
15. Matters that may be dealt with in the engagement letter include:
 - (a) the responsibility of the directors to prepare the preliminary announcement;
 - (b) the fact that the auditors will conduct their work in accordance with HKSRS 4400 and with reference to this Practice Note;
 - (c) a statement as to whether the auditors believe it is management's intention that the preliminary announcement will be based on audited financial statements or on draft financial statements upon which the auditors have not issued a report or alternatively, that it is not certain as to which will be the case;
 - (d) a statement that the auditors would issue a letter confirming their agreement to the preliminary announcement of the 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.
16. 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

17. Where the preliminary announcement is to be based on draft financial statements the company's timetable would allow the auditors to have completed the audit other than for those matters set out in paragraph 21 below. Furthermore, the Board/Committee of the Board would formally approve the draft financial statements of the company supporting the preliminary statement of the annual results before the auditors agree to the preliminary announcement. If this is not available the auditors obtain alternative evidence of the adoption by the listed issuer of the draft financial statements for the year and preliminary results announcement. In the absence of such, the auditors generally refrain from issuing their agreement to the preliminary announcement of the results.

Preliminary announcements based on audited financial statements

18. Arising from the requirements of the Listing Rules, there is an expectation on the part of users that the information in a preliminary announcement 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 to have been extracted from audited financial statements that have been approved and signed by the directors and upon which the auditors have issued their report.

Preliminary announcements based on draft financial statements

19. Where preliminary announcements are 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 the results, therefore, the directors need to ensure they are satisfied that the information contained in the preliminary announcement will be consistent with the information that will be contained in the audited financial statements.
20. The 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. This means that the audit of the financial statements would be at an advanced stage and that, subject only to unforeseen events, the 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.
21. This means completing the audit including an Engagement Quality Control Review as described in paragraphs 36 to 40 of HKSA 220 "Quality Control for Audits of Historical Financial Information", subject only to the following:
 - (a) clearing outstanding audit matters which the auditors are satisfied are unlikely to have a material impact on the financial statements or disclosures in the preliminary announcement;
 - (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 and completing their reading of other information in the annual report in accordance with SAS 160 "Other information in documents containing audited financial statements" or HKSA 720 "Other Information in Documents Containing Audited Financial Statements";
 - (c) 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 financial statements; and
 - (d) obtaining written representations, where relevant, from management and establishing that the financial statements have been approved by the directors.

All preliminary announcements

22. 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 covering the full year have been accurately extracted from the audited or draft financial statements; and reflect the presentation to be adopted in the audited financial statements.
23. Other ancillary procedures that the 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 the auditors are aware; and

- (b) considering whether the financial information in the preliminary announcement 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 the auditors encounter any inconsistency or misstatement, they seek to resolve the issues with the directors. If they are unable to resolve the matters to their satisfaction, the auditors do not issue their agreement in respect of the preliminary announcement of the 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.

Additional information and management commentary

24. It is recognized that in some circumstances the presentation of additional financial information and narrative explanations in the announcement in addition to disclosing the results may help shareholders 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 preliminary announcements 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 final (as the case may be) financial statements or, where relevant, adjusted numbers are not reconciled to the unadjusted financial information on which, the results announcement is based.
25. In this context where the preliminary announcement includes additional information, before agreeing to the preliminary announcement of the results, auditors consider whether:
- (a) appropriate prominence is given to the unadjusted financial information and related narrative explanations compared to the prominence given to additional financial information and its related narrative explanations;
 - (b) additional financial information is reconciled, where appropriate, to the unadjusted financial information and sufficient prominence is given to that reconciliation;
 - (c) additional financial information is clearly and appropriately described; and
 - (d) the additional information is not otherwise misleading in the form and context in which it appears.

If the auditors do not believe that the additional information accompanying the preliminary announcement of the results satisfies these conditions, they seek to resolve the issues arising with the directors. If they are unable to resolve the matters to their satisfaction, the auditors do not issue their agreement in respect of the preliminary announcement of the 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.

26. 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 apparent inconsistencies with information obtained during their audit or with the draft or final (as the case may be) financial statements, they seek to resolve them with the directors. If they are unable to resolve the matters to their satisfaction, the auditors do not issue their agreement in respect of the preliminary announcement of the 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.

27. 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 will usually be derived. In event of disagreement, the auditors communicate with the board of directors and the audit committee. If they are unable to resolve the matters to their satisfaction, the auditors do not issue their agreement in respect of the preliminary announcement of the 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

28. It is recommended that the preliminary announcement state the date on which it was approved by the board of directors. Auditors do not agree to the preliminary announcement 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 and the draft financial statements supporting the preliminary statement of the annual results or obtain sufficient alternative evidence confirming these matters.

Qualification of the audit opinion

29. The Main Board and GEM Listing Rules require that, if the auditors' report on the listed issuer's annual financial statements is likely to be qualified or modified (whether or not it is also likely to be qualified), the preliminary statement give details of the qualification or modification.
30. Where the auditors' report does, or is expected to, contain an explanatory paragraph dealing with a fundamental uncertainty, the auditors do not issue their agreement in respect of the preliminary announcement of results unless the directors have explained the fundamental uncertainty in the preliminary announcement. This is because the fundamental uncertainty 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 to refer to the auditors in this context – it is for management to explain the relevant issues.
31. If the precise details of the matters giving rise to a qualified opinion or explanatory paragraph are critical to a full appreciation of the financial position/auditors' report, it is strongly recommended that auditors do not normally issue their agreement of the preliminary announcement of results unless the matters are adequately disclosed in the preliminary announcement. Where reference is made in a preliminary announcement to a qualified opinion or a fundamental uncertainty, the directors would give adequate prominence to that information in the announcement and the auditors would have to be satisfied in this regard. If the auditors have concerns about the appropriateness of the wording of a statement referring to a qualified opinion 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

32. Auditors are encouraged to make explicit their agreement in respect of the preliminary announcement of the listed issuer's 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 the auditors.
33. Similarly, if the auditors are not in agreement with the content of the results disclosed in the preliminary announcement of the 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 the results.

34. 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.
35. 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 announcement. An example of such a disclosure can be found in Appendix 2.
36. The auditors may 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 with which the auditors disagree. The action that the auditors take depends on the particular circumstances. In circumstances where a preliminary announcement is inadvertently released without the auditors' knowledge, but with which the auditors do in fact agree, the auditors may wish to remind the directors of the listed issuer of their obligation under the Main Board and GEM Listing Rules to obtain the auditors' agreement.
37. However, at the other end of the spectrum where the auditors become aware that the directors have released an announcement 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.
38. If the auditors were to report the matter to the SEHK, they need to consider whether there might be a breach of confidentiality.
39. If the auditors decide it necessary to report the fact that they had not agreed to the preliminary announcements 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 company which is listed, or any associated company of the company, 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. The auditors are advised to consult their lawyers before making such a report.

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 your announcement of the consolidated results of [XYZ Company Limited] (“the Company”) and its subsidiaries (“the Group”) for the year ended [date] that are set out in the attached [draft] preliminary announcement of the Group’s results (“the Announcement”), for which the Company’s directors 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 [xx] “Guidance for Auditors Regarding Preliminary Announcements of Annual Results” issued by the Hong Kong Institute of Certified Public Accountants (“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 [the Growth Enterprise Market of]² the Stock Exchange of Hong Kong Limited.

For the purpose of this report, we obtained from the Company [a draft copy of] the Announcement of the results of the Group and the [draft/audited] financial statements for the year ended [date], a copy of which is attached for reference, and compared the figures set out in the Announcement in respect of the Group’s balance sheet, income statement and the related notes thereto to the [draft/audited] 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 balance sheet, income statement and the related notes thereto for the year ended [date] as set out in the Announcement were in agreement with the amounts set out in the 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 Announcement.

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

[Events or issues may arise during the course of finalising and issuing the audited financial statements that might result in the need to revise the amount of the Group’s results for the year or to [modify the draft audit report] / [further modify the audit report]⁴.

¹ Applicable for Main Board listed issuer.

² Applicable for GEM Board listed issuer.

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.

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 may be provided to the SEHK and SFC without further comment from us. This report relates only to the items specified above and does not extend to the Announcement, taken as a whole.

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

⁴ To include if the audit report has not been signed as of the date of issuance of this report. Furthermore, if modification of the audit report is already anticipated, the auditors should have previously notified the issuer as paragraph 45(7) of Appendix 16 to the Main Board Rules and GEM Rules 18.50(8) require that where the auditors' report on the listed issuer's annual financial statements is likely to be qualified or modified, details of the qualification or 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.

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 [the Growth Enterprise Market of]⁷ the Stock Exchange of Hong Kong Limited.

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

1. Responsibilities of directors

1.1 As directors of the Company, you are solely responsible for content and the preparation of the Announcement.

1.2 You will make available to us for the purpose of preparing our report:

- [a draft copy of] the Announcement; and
- [draft/audited] financial statements of the Company and 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 Announcement in sufficient time to enable us to complete our work. The Board/Committee of the Board will formally approve the Announcement before we report on it.

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 financial statements of the company supporting the preliminary statement of the annual results before we report on the Announcement.]

1.5 You will also invite us to attend the board of directors’ meeting at which the directors approve the Announcement and the [draft/audited] financial statements supporting the preliminary statement of annual results. Alternatively, you will provide us with a copy of the board minutes approving the Announcement and the draft financial statements.

2 Scope of our work

2.1 You have requested us to provide a report on our agreement with the Group’s 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 Practising members 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 issuer.

⁷ Applicable for GEM Board listed issuer.

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

We will obtain from the Company [a draft copy of] the Announcement and the [draft/audited] financial statements for the year ended [date] and shall compare the figures set out in the Announcement in respect of the Group's balance sheet, income statement and the related notes thereto to the [draft/audited] financial statements of the Group for the year and report to you the agreement thereof.

2.3 Our work will be carried out in accordance with Hong Kong Standard on Related Services (HKSRS) 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" and with reference to Practice Note [xx] "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants ("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 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 Announcement of the Group and the [draft/audited] financial statements for the year ended [date] and comparing the figures set out in the Announcement in respect of the Group's balance sheet, income statement and the related notes thereto to the [draft/audited] financial statements of the Group for the year, in accordance with HKSRS 4400 and with reference to Practice Note [xx]. It will also state that we have not performed an assurance engagement on the 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 Announcement, we will not issue our agreement in respect of the Announcement and will send a letter to the board of directors 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 SFC 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 the Announcement. We will agree to this provided that our scope of work is made clear in the announcement. An example disclosure in this respect is as follows:

Scope of work of ABC & Co

The figures in respect of the preliminary announcement of the Group's results for the year ended [date] have been agreed by the Company's auditors, ABC & Co, to the amounts set out in the Group's [draft/audited] 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 Announcement.

- 3.4 We will be entitled to review, comment on the appropriateness of, and object to, the contents of any 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 Announcement will not be finalised or published without having obtained our prior written consent. If a situation arises where your Announcement is published without taking into account our comments and objections and without having obtained our prior written consent, we will be required to 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 the 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 financial statements or disclosures in the Announcement;
 - (b) completing audit procedures on the detail of note disclosures to the financial statements and completing our reading of the other information in the annual report;
 - (c) updating the subsequent events review to cover the period between the date of the Announcement and the date of the auditors' report on the financial statements; and obtaining written representations, where relevant, from management and establishing that the financial statements have been reviewed and approved by the directors. The scope of our work will be necessarily limited in that we will only be able to check the consistency of the Announcement with draft financial statements on which our audit is incomplete. Accordingly, we shall not, at that stage, know whether further adjustments may be required to those draft financial statements. Consequently, there is an unavoidable risk that the company may wish to revise its Announcement in the light of audit findings or other developments occurring between the Announcement being published to the SEHK and the completion of the audit.]

In the event that we disagree with the release of the 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 the newspapers its preliminary results in respect of each financial year, the next business day after approval by or on behalf of the board and in any event not later than four months after the date upon which the financial period ended.
- (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 within four months after the end of the financial year containing 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;
 - (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; and
- (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.

- (5) The issuer must supply the Exchange immediately on publication with the names of the relevant newspapers and the date of publication.

Information to accompany preliminary announcements of

Results for the financial year

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

- (1) except where the listed issuer is a banking company, the information in respect of the balance sheet and the income statement as set out in paragraph 4 comprising an income statement for the financial year, with comparative figures for the immediately preceding financial year, and balance sheet as at the end of the year, with comparative figures as at the end of the immediately preceding financial year. A banking company shall comply with Appendix 15 as regards the disclosure requirements for the balance sheet and income statement. The listed issuer must include the notes relating to turnover, 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 Listed issuers are not required to include an audited balance sheet within the meaning of section 129C or other provisions of the Companies Ordinance concerning balance sheets in their preliminary results announcement for the financial year under this paragraph 45. However, the financial information included in the preliminary results announcement must have been agreed with the auditors. This does not affect the listed issuers' obligations under the Companies Ordinance concerning balance sheets as and when they are applicable. Where a listed issuer includes an audited balance sheet in its preliminary results announcement, it must comply with all applicable laws, including the relevant statutory provisions applicable in the listed issuer's place of incorporation.

- (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 business review 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 Code on Corporate Governance Practices 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' report on the listed issuer's annual financial statements is likely to be qualified or modified (whether or not it is also likely to be qualified), details of the qualification or modification; and
- (8) where there are any significant changes in accounting policies, a statement to that fact must be made.

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.

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 the newspapers 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 on the next business day after approval by or on behalf of the board of its results and in any event 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) except where the listed issuer is a banking company, the information in respect of the balance sheet and the income statement as set out in rule 18.50B comprising an income statement for the financial year, with comparative figures for the immediately preceding financial year, and balance sheet as at the end of the year, with comparative figures as at the end of the immediately preceding financial year. A banking company shall comply with rule 18.80 as regards the disclosure requirements for the balance sheet and income statement. The listed issuer must include the notes relating to turnover, 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: Listed issuers are not required to include an audited balance sheet within the meaning of section 129C or other provisions of the Companies Ordinance concerning balance sheets in their preliminary results announcement for the financial year under this rule 18.50. However, the financial information included in the preliminary results announcement must have been agreed with the auditors. This does not affect the listed issuers' obligations under the Companies Ordinance concerning balance sheets as and when they are applicable. Where a listed issuer includes an audited balance sheet in its preliminary results announcement, it must comply with all applicable laws, including the relevant statutory provisions applicable in the listed issuer's place of incorporation.

- (2) a business review 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) where the listed issuer is regarded as a financial conglomerate (as defined in rule 18.37B), the information set out in rule 18.37A;
- (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;
- (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 Code on Corporate Governance Practices 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; and
- (7) a statement as to whether the annual results have been reviewed by the audit committee of the listed issuer;
- (8) where the auditors' report on the listed issuer's annual financial statements is likely to be qualified or modified (whether or not it is also likely to be qualified), details of the qualification or modification pursuant to rule 18.51; and
- (9) where there are any significant changes in accounting policies, a statement to that fact must be made.

Notes: 1.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.

2 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 Except for banking companies, which must comply with rule 18.80, 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 contain at least the following information in respect of the group:—

- (1) Income statement
 - (a) turnover;
 - (b) investment and other income;

- (c) profit (or loss) on sale of investments or properties;
 - (d) cost of goods sold;
 - (e) interest on borrowings;
 - (f) depreciation/amortisation;
 - (g) profit (or loss) before taxation including the share of profit (or loss) of affiliated companies with separate disclosure of any items included therein which are exceptional because of size and incidence;
 - (h) taxation on profits (Hong Kong and overseas) in each case indicating basis of computation with separate disclosure of the taxation on share of affiliated companies' profits;
 - (i) profit (or loss) attributable to minority interests;
 - (j) profit (or loss) attributable to shareholders;
 - (k) 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);
 - (l) all movements to and from any reserves;
 - (m) earnings per share; and
 - (n) comparative figures of the matters specified in (a) to (m) immediately above for the corresponding previous period;
- (2) Balance sheet information as follows, if applicable:
- (a) fixed assets;
 - (b) current assets
 - (i) stocks;
 - (ii) debtors including credit policy and ageing analysis of accounts receivable;
 - (iii) cash at bank and in hand; and
 - (iv) other current assets;
 - (c) current liabilities
 - (i) borrowings and debts; and
 - (ii) ageing analysis of accounts payable;
 - (d) net current assets (liabilities);
 - (e) total assets less current liabilities;
 - (f) non-current liabilities

- (i) borrowings and debts;
 - (g) capital and reserves;
 - (h) minority interests; and
- (3) Segment information

The income statement and balance sheet of a listed issuer shall, in addition to that information required by rules 18.50B(1) and (2), include the information required by:—

- (a) Statement of Standard Accounting Practice 26 segment reporting if it prepares its annual financial statements in accordance with Hong Kong Financial Reporting Standards; or
- (b) International Accounting Standard 14 reporting financial information by segment if it prepares its annual financial statements in accordance with International Financial Reporting Standards; or
- (c) the relevant accounting standards dealing with segment reporting in Generally Accepted Accounting Principles in the United States of America (US GAAP) if it prepares its annual financial statements in accordance with US GAAP.

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.

4 The information required by this rule may be provided on the face of the income statement or the balance sheet, as appropriate, or in the notes to the financial statements.

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 In connection with the audit of the issuer's annual accounts:—

- (1) where the auditors' report is likely to be qualified, the preliminary announcement of results must include details of such qualification; and

- (2) where the auditors' report is likely to be modified, whether or not it is also likely to be qualified, details of such modification, together with a full explanation of the circumstances leading to the modification, must be included in the preliminary announcement of results. Where the modifications in the auditors' report refer to specific notes to the financial statements, the information in the financial statements should also be included in the preliminary announcement.

Miscellaneous

- 18.52 Banking, insurance and shipping companies will not be entitled to avail themselves of the benefit of the provisions of Part III of the Tenth Schedule to the Companies Ordinance.