



# MEMBERS' HANDBOOK

## Update No. 146

(Issued 29 April 2014)

<i>Document Reference and Title</i>	<i>Instructions</i>	<i>Explanations</i>
<b><u>VOLUME III</u></b>		
<b>Contents of Volume III</b>	Discard the existing pages i, iii, iv, and replace with the new pages i, iii, iv.	Revised contents pages
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<a href="#"><u>HKSIR 500 Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness</u></a>	Insert HKSIR 500 after HKSIR 400.	New Standard - Note 1
<b>AUDITING GUIDELINES</b>		
<a href="#"><u>AG 3.340 Prospectuses and the reporting accountant</u></a>	Replace page 1 with revised page 1.	Note 2
<a href="#"><u>AG 3.341 Accountants' report on profit forecasts</u></a>	Replace page 1 with revised page 1.	Note 3

### Notes:

1. The purpose of new HKSIR 500 is to establish standards and provide guidance for reporting accountants when providing letters on the following information included in an investment circular:
  - profit forecast
  - statement of sufficiency of working capital
  - statement of indebtedness

This is to update extant guidance with the current assurance and related services pronouncements as well as the new sponsors' regime. This HKSIR is effective for engagements where the investment circular is dated on or after 1 July 2014 with early adoption permissible.

2. AG 3.340 is updated to reflect that the respective guidance on reports on working capital requirements (paragraphs 67 to 71) and reports on borrowings (paragraphs 72 to 75) in extant AG 3.340 will be superseded by HKSIR 500 for engagements where the investment circular is dated on or after 1 July 2014.
3. AG 3.341 is updated to reflect that it will be superseded by HKSIR 500 for engagements where the investment circular is dated on or after 1 July 2014.



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HKSIR 500  
Issued April 2014

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Effective for engagements where  
the investment circular is dated on or after 1 July 2014 with  
early adoption permissible

*Hong Kong Standard on  
Investment Circular Reporting Engagements 500*

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# **Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness**



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

**HONG KONG STANDARD ON  
INVESTMENT CIRCULAR REPORTING ENGAGEMENTS 500  
REPORTING ON PROFIT FORECASTS, STATEMENTS OF SUFFICIENCY OF  
WORKING CAPITAL AND STATEMENTS OF INDEBTEDNESS**

(Effective for engagements where  
the investment circular is dated on or after 1 July 2014 with early adoption permissible)

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Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" should be read in the context of the "Amended Preface to the Hong Kong Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements" which sets out the application and authority of HKSIRs.

This HKSIR reflects the Listing Rules/GEM Rules, the Takeovers Code and the Companies (Winding Up and Miscellaneous Provisions) Ordinance that were in effect as at 31 March 2014.

## Introduction

1. The purpose of this HKSIR is to establish standards and provide guidance for reporting accountants when providing letters on certain information included in an investment circular, namely, in connection with a profit forecast by the Issuer's directors, a statement by the Issuer's directors on the Issuer's sufficiency of working capital and a statement by the Issuer on the Issuer's indebtedness. This HKSIR is written in the context of new listings of equity securities unless otherwise indicated. The sample letters set out in the appendices should be modified in the case of, for example, an investment circular of a notifiable transaction.

## Definitions

2. The definitions used in this HKSIR are:
  - a. Consent letter: A letter whereby the reporting accountants consent to the inclusion in an investment circular of references to their name or the inclusion of any of their reports which are to be published therein in accordance with the Listing Rules/GEM Rules and Companies (Winding Up and Miscellaneous Provisions) Ordinance.
  - b. GEM Rules: Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.
  - c. GEM: The Growth Enterprise Market operated by the Stock Exchange.
  - d. HKSAE 3000 Hong Kong Standard on Assurance Engagements 3000 "*Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*".
  - e. Investment circular: A document issued by an entity pursuant to statutory or regulatory requirements relating to securities on which it is intended that a third party should make an investment decision, including a prospectus, listing particulars, a circular to shareholders or similar document.
  - f. Issuer: As defined by the Listing Rules/GEM Rules, an issuer is any company or other legal person any of whose equity or debt securities are the subject of an application for listing or some of whose equity or debt securities are already listed.
  - g. Listing Rules: Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
  - h. Prospectus: Any prospectus, notice, circular, brochure, advertisement, or other document offering any shares or debentures of a company to the public for subscription or purchase for cash or other consideration; or circular to invite offers by the public to subscribe for or purchase for cash or other consideration any shares or debentures of a company.



- i. Reporting accountants: Accountants who are engaged to prepare public reports and letters for inclusion in, or private letters in connection with, an investment circular. Where the context requires, this term includes auditors where they are carrying out a role in connection with an investment circular, other than that of reporting as auditors on financial statements. The reporting accountants may or may not be the auditors of the issuer issuing the investment circular.
- j. SFC: Securities and Futures Commission.
- k. Sponsor: Any corporation or authorised financial institution, licensed or registered under applicable laws to advise on corporate finance matters and appointed as a sponsor by a new applicant under the Listing Rules / GEM Rules to assist the new applicant with its initial application for listing. The sponsor must be acceptable to the Stock Exchange.
- l. Stock Exchange: The Stock Exchange of Hong Kong Limited.
- m. Takeovers Code: The Codes on Takeovers and Mergers and Share Buy-backs issued by the Securities and Futures Commission.

## Relevant Regulations

### Profit Forecasts

3. Listing Rules 11.17 and 14.61 and GEM Rules 14.29 and 19.61 define a profit forecast (referred to in this HKSIR as a "Profit Forecast") as any forecast of profits or losses, however worded, and includes any statement which explicitly or implicitly quantifies the anticipated level of future profits or losses, either expressly or by reference to previous profits or losses or any other benchmark or point of reference. This also includes any profit estimate, being an estimate of profits or losses for a financial period which has expired but for which the results have not yet been audited or published. In addition, any valuation of assets (except for property interests (as defined in Listing Rule 5.01(3) and GEM Rule 8.01(3)) or businesses acquired by an Issuer based on discounted cash flows or projections of profits, earnings or cash flows is regarded as a profit forecast.
4. There is no specific regulation or requirement that an investment circular should incorporate a profit forecast<sup>1</sup>. Listing Rule 11.17 and GEM Rule 14.29 require that, in the case of a new listing of equity securities, the Issuer must determine in advance whether to include a Profit Forecast in an investment circular. Where a Profit Forecast appears in any investment circular, it must be clear, unambiguous and presented in an explicit manner. The principal assumptions, including commercial assumptions, upon which it is based, must be stated and such profit forecast must be prepared on a basis that is consistent with the accounting policies normally adopted by the Issuer. Listing Rule 11.17 and GEM Rule 14.29 also state that the accounting policies and calculations for the Profit Forecast must be reviewed and reported on by the reporting accountants and their letter must be set out.
5. Following the new sponsor regulations taking effect in October 2013, a draft investment circular relating to a new listing of equity securities (referred to as an "Application Proof") shall

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<sup>1</sup> The inclusion of a profit estimate may be required when a listing applicant applies for a waiver from compliance with Listing Rule 4.04(1) or GEM Rules 7.03(1) and 11.10.

include the draft reporting accountants' letter on the Profit Forecast (if any) upon submission to the Stock Exchange. Guidance Letter 58-13 issued by the Stock Exchange requires the reporting accountants to provide a written confirmation to the applicant, with a copy to the sponsor, the Stock Exchange and the SFC, that no significant modification is expected to be made to the draft letter on the Profit Forecast based on the work done as of the date of the confirmation.

6. Rule 10 of the Takeover Code provides that a Profit Forecast must be compiled with due care and consideration by the directors, whose sole responsibility it is. The reporting accountants must report on the Profit Forecast, so far as the accounting policies and calculations are concerned, as to whether it has been properly compiled on the basis of the assumptions made.
7. Listing Rule 11.18 and GEM Rule 14.30 require that a Profit Forecast appearing in an investment circular (other than one supporting a capitalisation issue) should normally cover a period which is coterminous with the Issuer's financial year end. If, exceptionally the profit forecast period ends at a half year-end the Stock Exchange will require an undertaking from the Issuer that the interim report for that half year will be audited. Ordinarily, profit forecast periods not ending on the financial year end or half year-end will not be permitted.
8. Listing Rule 11.19 and GEM Rule 14.31 require that the assumptions upon which any profit forecast appearing in a listing document (other than one supporting a capitalisation issue) are based must provide useful information to investors to help them in forming a view as to the reasonableness and reliability of the forecast. Such assumptions should draw the investors' attention to, and where possible quantify, those uncertain factors which could materially disturb the ultimate achievement of the forecast. The assumptions should be specific rather than general, definite rather than vague. All embracing assumptions and those relating to the general accuracy of the estimates made in the profit forecast should be avoided. Furthermore it will not normally be acceptable for assumptions to relate to matters which the directors, by virtue of their particular knowledge and experience in the business, are best able to take a view on or are able to exercise control over since such matters should be reflected directly in the profit forecast itself.

### **Statements of Sufficiency of Working Capital**

9. Paragraph 36 of Appendix 1A to the Listing Rules and Paragraph 36 of Appendix 1A to the GEM Rules<sup>2</sup> require an investment circular relating to a new listing of equity securities to include a statement by the directors that in their opinion the working capital available to the group is sufficient for the group's present requirements, that is for at least the next 12 months from the date of publication of the investment circular<sup>3</sup>, or, if not, how it is proposed to provide the additional working capital thought by the directors to be necessary (referred to in this HKSIR as "Working Capital Statement"). As explained in Note 3 of Appendix 1A to the Listing Rules/GEM Rules<sup>2</sup>, reference to the group is to be construed as including any company which will become a subsidiary of the Issuer by reason of an acquisition which has been agreed or proposed since the date to which the latest audited accounts of the Issuer have been made up.
10. Following the new sponsor regulations taking effect in October 2013, a draft investment circular relating to a new listing of equity securities must include the Working Capital Statement upon submission to the Stock Exchange. An advanced draft of a letter from the listing applicant's sponsor confirming that it is satisfied that the Working Capital Statement in the Application Proof has been made by the directors after due and careful enquiry must be submitted to the Stock Exchange at the same date as the Application Proof. Before a listing document is bulk-printed, the listing applicant's sponsor is required to provide a final confirmation letter on the Working Capital Statement.

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<sup>2</sup> In the case where listing is sought for equity securities of an issuer some part of whose share capital is already listed, reference should be made to Paragraph 30/Note 2 of Appendix 1B to the Listing Rules and the GEM Rules.

<sup>3</sup> For listing of a "mineral company" as defined under Chapter 18 of the Listing Rules and Chapter 18A of the GEM Rules, an applicant must demonstrate that it has sufficient working capital for 125% of its working capital needs for the next 12 months from the date of the publication of the investment circular.

11. Where an investment circular relating to a notifiable transaction contains a Working Capital Statement, the Stock Exchange will require a letter from the Issuer's financial advisers or auditors confirming that the directors have made such statement after due and careful enquiry and that the persons or institutions providing finance have confirmed in writing that such facilities exist<sup>4</sup>.
12. Listing Rule 9A.06(8) requires that where an Issuer listed on GEM applies for a transfer of listing to the Main Board, the Stock Exchange will require a written confirmation, together with relevant supporting information<sup>5</sup>, from the Issuer confirming that the working capital available for the group is sufficient for its present requirements. The Issuer's financial advisers or auditors should be satisfied that this confirmation has been given after due and careful enquiry and that persons or institutions providing finance have stated in writing that the relevant financing facilities exist.

### Statements of Indebtedness

13. As more fully explained below, amongst other things, Paragraph 32 of Appendix 1A to the Listing Rules and Paragraph 32 of Appendix 1A to the GEM Rules<sup>6</sup> require an investment circular relating to a new listing of equity securities to include a statement as at the most recent practicable date of the total amount of debt securities, borrowings, indebtedness, mortgages, charges, contingent liabilities and guarantees, of the new applicant on a consolidated or combined basis (referred to in this HKSIR as a "Statement of Indebtedness"). For the purposes of that requirement, the Stock Exchange ordinarily requires that the relevant information should be as at a date that is no more than two calendar months before the issuance of the investment circular.<sup>7</sup>
14. Paragraph 32 of Appendix 1A to the Listing Rules and Paragraph 32 of Appendix 1A to the GEM Rules<sup>6</sup> require disclosure by the Issuer of details of any loan capital, borrowings, mortgages or charges and indebtedness, contingent liabilities and guarantees, as at the most recent practicable date (ordinarily no more than two calendar months before the issuance of the investment circular), or an appropriate negative statement. The Issuer is required to set out, as at the most recent practicable date (which must be stated), the following on a consolidated or combined basis if material:
  - (a) the total amount of any debt securities of the group issued and outstanding, and authorised or otherwise created but unissued, and term loans, distinguishing between guaranteed, unguaranteed, secured (whether the security is provided by the Issuer or by third parties) and unsecured, or an appropriate negative statement;
  - (b) the total amount of all other borrowings or indebtedness in the nature of borrowings of the group including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, distinguishing between guaranteed, unguaranteed, secured and unsecured borrowings and debt, or an appropriate negative statement;
  - (c) all mortgages and charges of the group, or an appropriate negative statement; and
  - (d) the total amount of any contingent liabilities or guarantees of the group, or an appropriate negative statement. Intra-group liabilities should normally be disregarded, a statement to that effect being made where necessary. Reference to group is to be construed as including any company which will become a subsidiary of the Issuer by

<sup>4</sup> Refer to Listing Rules 14.66(12), 14.67A(2)(b)(ii) and 14.69(1)(b) and GEM Rules 19.66(13), 19.67A(2)(b)(ii) and 19.69(1)(b) for situations where a Working Capital Statement is required in an investment circular relating to a notifiable transaction.

<sup>5</sup> As explained in Note to Listing Rule 9A.06(8), supporting information for this purpose typically includes cash flow forecast memoranda, profit forecasts and written statements from persons or institutions providing finance.

<sup>6</sup> In the case where listing is sought for equity securities of an issuer some part of whose share capital is already listed, reference should be made to Paragraph 28 of Appendix 1B to the Listing Rules and the GEM Rules.

<sup>7</sup> Refer to Guidance Letter 38-12 "Guidance on the Latest Practicable Date and the Latest Date for Liquidity Disclosure in Listing Documents" issued by the Stock Exchange.

reason of an acquisition which has been agreed or proposed since the date to which the latest audited accounts of the Issuer have been made up.

In addition, the Issuer should set out a commentary on (i) the group's liquidity and financial resources, which may include comments on the level of borrowings at the end of the period under review, the seasonality of borrowing requirements and the maturity profile of borrowings and committed borrowing facilities; and (ii) the capital structure of the group. The Issuer is also expected to disclose information about unutilised banking facilities.

15. Following the new sponsor regulations taking effect in October 2013, an Application Proof relating to a new listing of equity securities must also include a Statement of Indebtedness upon submission to the Stock Exchange. The relevant information should be as at a date that is no more than two calendar months before the date of the Application Proof. The Statement of Indebtedness must be updated as necessary in subsequent draft and final investment circulars relating to a new listing of equity securities to satisfy the two calendar months requirement.

### **Preparation of the Profit Forecast, Working Capital Statement and Indebtedness Statement by the Issuer's Directors**

16. The directors are solely responsible for the Profit Forecast, Working Capital Statement and the Statement of Indebtedness included in an investment circular.
17. Ordinarily, a Profit Forecast and a Working Capital Statement are prepared in conjunction with a memorandum prepared by the Issuer (hereafter referred to as a "board memorandum") which would normally include the preparation of supporting prospective financial information in the form of internally consistent forecast/projected profit and loss, balance sheet information, cash flow forecasts/projections, details of facilities and resources available, or to become available to the group, together with supporting analyses and details of the assumptions on which they are based.
18. The requirements of the regulations governing Profit Forecasts and Working Capital Statements are not aligned. A Profit Forecast for the current (or unexpired) accounting period is required to be submitted to the Stock Exchange as part of the board memorandum but the working capital forecast must cover a period of at least 12 months. For example, a Profit Forecast may cover a period for the financial year ending 31 December 20X3 while the working capital forecast may cover a period for the 18 months ending 31 December 20X4. For the purpose of preparation of a board memorandum, the Profit Forecast generally covers a period shorter than that of the working capital forecast. However, the Issuer's directors also should prepare a forecast of the profit or loss for an extended period, in support of the working capital forecast even if the profit forecast for that extended period does not get formally incorporated into the board memorandum.
19. The directors are expected to undertake appropriate procedures in the preparation of the Profit Forecast and working capital forecast supporting the Working Capital Statement, which would normally include:
  - (a) business analysis covering the profit and loss, cash flows of the business and the terms and conditions and commercial considerations associated with banking and other financing arrangements;
  - (b) consideration of the strategy and plans of the business and the related implementation risks together with checks against external evidence and opinion; and
  - (c) assessment of whether there is sufficient margin or headroom to cover a reasonable worst case scenario, i.e. sensitivity analysis, for the purpose of a working capital forecast.

20. The directors should consider the relevant guidance in Listing Rule 11.19 and GEM Rule 14.31 as described in paragraph 8 above when setting assumptions for the Profit Forecast and working capital forecast. The board memorandum setting out such assumptions should be approved by the directors and recorded in the board minutes. The Profit Forecast and working capital forecast should be properly compiled on the basis of these underlying assumptions.
21. The preparation of a Profit Forecast, a Working Capital Statement and a Statement of Indebtedness are interrelated to the extent that consistent analyses should be made covering all three documents. In particular the amounts included in the Statement of Indebtedness and the Profit Forecast should be incorporated into the Working Capital Statement.
22. Ordinarily, a schedule of indebtedness as at the most recent practicable date, containing details of the items listed in paragraph 14(a) to (d) above, should be prepared by the directors in support of the Statement of Indebtedness that is included in the investment circular. Figures in the schedule should in turn agree to amounts disclosed in the investment circular. The investment circular not only includes the Statement of Indebtedness but often may include management discussion and analysis which are further discussed in paragraph 55 below.

### **Reporting on Profit Forecasts**

23. It is not the reporting accountants' responsibility to report upon the assumptions or to report on the prospects of the Issuer achieving the Profit Forecast. Nevertheless, reporting accountants should not allow any assumption to be published which appears to them to be unrealistic (or one to be omitted which appears to them to be important), without commenting on it in their letter.
24. It is emphasised that Profit Forecasts necessarily depend on subjective judgements. They are, to a greater or lesser extent according to the nature of the business and period the Profit Forecast covers, subject to numerous and substantial inherent uncertainties. In consequence, Profit Forecasts are not capable of being substantiated by reporting accountants in the same way as financial statements which present the results of completed accounting periods. Due to the uncertainties mentioned above, reporting accountants should normally restrict their reporting on Profit Forecasts to those for one year or less from the date to which the last audited financial statements were made up. Only in exceptional circumstances should they report on profit forecasts for a future accounting period which should in any case be limited to the immediately succeeding period and then only if a significant part of the current period has already elapsed.

In practice, it is unusual to provide a forecast for a succeeding period unless:

- (a) at least 10 months of the current period has elapsed; and
  - (b) the Issuer's operations lend themselves to reasonably accurate forecasting such as in the case of a regulated utilities company.
25. The reporting accountants should make the reporting period clear when they accept instructions to examine the accounting policies and calculations for Profit Forecasts, and in the wording of their letter they should take care to avoid giving any impression that they are in any way confirming, underwriting, guaranteeing or otherwise accepting responsibility for the ultimate accuracy and realisation of forecasts. Moreover, bearing in mind their special status and authority, reporting accountants should do or say nothing to encourage directors, third parties or the public to place a mistaken degree of reliance on statements as to future profits, the achievement of which must always be subject to uncertainty.
  26. Reporting accountants should agree with the directors the following fundamental points before accepting instructions to report:
    - (a) the purpose for which the Profit Forecast has been prepared and the reporting accountants' letter is required;

- (b)
    - (i) that the reporting accountants' instructions and responsibilities for reporting are limited to the requirements under the regulations and do not constitute an audit;
    - (ii) that the directors assume full responsibility for the Profit Forecast under review; and
    - (iii) that the directors will signify their responsibility for formal adoption by the board;
  - (c) that the Profit Forecast is for:
    - (i) an expired accounting period;
    - (ii) the current (or unexpired) accounting period; or
    - (iii) the current and the immediately succeeding accounting period, provided that a sufficiently significant part of the current period has already elapsed;
  - (d) no material restrictions on the scope of the reporting accountants' work (for example, by restricting visits to overseas companies or material factory units) can normally be accepted unless the matter is dealt with in the reporting accountants' letter and in the published documents; and
  - (e) that the time within which the reporting accountants' letter is required is not so severely restricted that, having regard to the Issuer's circumstances and forecasting experience, and notwithstanding their best endeavours, it would be plainly impossible for the reporting accountants to obtain sufficient information to enable them properly to exercise their professional judgement.
27. In the case of a Profit Forecast in an investment circular relating to a new listing of equity securities, the sponsors should report whether or not they have satisfied themselves that the forecast has been stated by the directors after due and careful enquiry. In the case of a Profit Forecast in a document connected with an offer, the Takeover Code requires that any adviser mentioned in the document should also report on the forecast. The responsibilities of such persons are distinct from those of the reporting accountants. From the outset, liaison should be established with such other advisers to ensure that there is no doubt or misunderstanding on either side as to the respective responsibilities or as to the work which will be carried out by each party to enable it to fulfil its reporting function.
28. The reporting accountants should consider materiality when determining the nature, timing and extent of evidence-gathering procedures. Considering materiality requires the reporting accountants to understand and assess what factors might influence the decisions of the intended users. The reporting accountants may also consider factors such as the preciseness of the Profit Forecast being made by the Issuer's directors. The reporting accountants should make reference to HKSAE 3000 for further guidance when determining materiality.
29. When reporting on the Profit Forecast, the reporting accountants should plan and perform the work in accordance with this HKSIR and with reference to HKSAE 3000. The degree of work required will in part depend on whether forecasts made in the past have proved reliable. The approach to such an assignment typically may include:
- (a) obtaining the board memorandum prepared by the directors;
  - (b) reviewing the Issuer's recent history, with reference to such matters as the general nature of its activities and its main products, markets, customers, suppliers, divisions, locations, management, labour force, trend of results and organisational changes;
  - (c) discussing the plans, strategies and risk analysis with the directors in the context of the preparation of the Profit Forecast, considering documentary support for the plans, strategies and risk analysis of the directors and assessing whether they are consistent

with the analysis of the business, and with information generated within the Issuer itself as well as from external sources such as key economic indicators and reliable industry statistics;

- (d) considering the consistency of underlying assumptions with the business analysis of the directors and assessing the source and reliability of the evidence supporting management's best-estimate assumptions. Sufficient appropriate evidence supporting such assumptions would be obtained from internal and external sources including consideration of the assumptions in the light of historical information and an evaluation of whether they are based on plans that are within the entity's capacity;
  - (e) establishing which accounting policies have been adopted by the Issuer in published financial statements so as to ensure that they are acceptable and have been consistently applied in the preparation of interim accounts and the Profit Forecast;
  - (f) considering the assumptions on which the Profit Forecast has been based in the course of their work to determine that the Profit Forecast is consistent with and has been properly compiled on the basis of the assumptions made by the directors;
  - (g) reading the minutes of the board and of other important management meetings which contain key factors that might affect the forecast;
  - (h) checking the arithmetical accuracy of the forecast and the supporting information; and
  - (i) obtaining written representations where necessary from the board of directors regarding the intended use of the Profit Forecast, the completeness of significant management assumptions and management's acceptance of its responsibility for the Profit Forecast.
30. In addition to checking the arithmetical accuracy of the Profit Forecast and that it is properly compiled on the basis of the stated assumptions, the reporting accountants will also need to consider the assumptions. If any assumption appears to be unrealistic, or if any important assumption has not been included in the Profit Forecast, the reporting accountants should consider the need to draw attention to it in their letter or whether to withhold issuing their letter until the matter is addressed to their reasonable satisfaction. The reporting accountants have no specific responsibilities for and are not required by the regulations or otherwise to report on the assumptions and should not comment on any assumption beyond the reporting accountants' area of expertise. In carrying out the review of a Profit Forecast, the main points which the reporting accountant will wish to consider include the following:
- (a) whether the Profit Forecast under review is based on forecasts regularly prepared for the purpose of management, or whether it has been separately and specifically prepared for the immediate purpose;
  - (b) where Profit Forecasts are regularly prepared for management purposes, the degree of accuracy and reliability previously achieved, and the frequency and thoroughness with which estimates are revised;
  - (c) whether the Profit Forecast under review represents the management's best estimate of results which they reasonably believe can and will be achieved as distinct from targets which the management have set as desirable;
  - (d) whether all significant implications of management's assumptions have been taken into consideration. For example, if sales are assumed to grow beyond the entity's current plant capacity, the Profit Forecast will need to include the necessary investment in the additional plant capacity or the costs of alternative means of meeting the anticipated sales, such as subcontracting production. Reporting accountants would need to be satisfied that they are consistent with the purpose of the Profit Forecast and that there is no reason to believe they are clearly unrealistic;

- (e) the extent to which those areas that are particularly sensitive to variation will have a material effect on the results shown in the Profit Forecast. This will influence the extent to which the reporting accountants will seek appropriate evidence and the reporting accountants' evaluation of the appropriateness and adequacy of disclosure;
- (f) when any elapsed portion of the current period is included in the Profit Forecast, the extent to which procedures need to be applied to the historical information. Procedures will vary depending on the circumstances, for example, how much of the prospective period has elapsed;
- (g) the extent to which Profit Forecast results for expired periods are supported by reliable interim accounts;
- (h) the details of the procedures followed to generate the Profit Forecast and the extent to which it is built up from detailed profit forecasts of activity and cash flow;
- (i) the extent to which profits are derived from activities having a proven and consistent trend and those of a more irregular, volatile or unproven nature;
- (j) how the Profit Forecast takes account of any material unusual items and prior year adjustments, their nature, and how they are presented; and
- (k) whether adequate provision is made for foreseeable losses and contingencies and how the Profit Forecast takes account of factors which may cause it to be subject to a high degree of risk, or which may invalidate the assumptions.

#### **The reporting accountants' letter**

31. The reporting accountants' letter will be addressed to the directors and to the sponsors (in the case of a new listing of equity securities) and will normally include statements dealing with the following matters, so far as appropriate:
- (a) specific identification of the Profit Forecast and documents to which the letter refers;
  - (b) the fact that the directors are solely responsible for the Profit Forecast;
  - (c) the fact that the reporting accountants have reviewed the accounting policies and calculations used in arriving at the Profit Forecast;
  - (d) if, as will frequently be the case, the reporting accountants have not carried out an audit of results for expired periods, a statement to that effect; and
  - (e) whether in the opinion of the reporting accountants the Profit Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors, as set out in the document, and is presented on a basis consistent with the accounting policies normally adopted by the Issuer.
32. The letter should be qualified if, inter alia, the reporting accountants:
- (a) have reason for material reservation about the accounting policies or calculations for the Profit Forecast;
  - (b) have reason to consider the accounting policies and calculations to be inconsistent with the stated assumptions; or
  - (c) have not obtained all the information they consider necessary (for example, the fact that they were unable to review the forecasts of material subsidiary or associated companies or because of unduly restrictive time limits).



33. If any of the assumptions which are to be published and which fall within the reporting accountants' area of expertise appear to them to be unrealistic, or if any assumption is to be omitted which appears to the reporting accountants to be important, they should include an appropriate comment in their letter.
34. Where the Profit Forecast involves assumptions of a high level of uncertainty, such as the projected change in fair value in respect of an investment property during the forecast period, the reporting accountants should consider whether to include an other matter paragraph concerning such uncertainties in the reporting accountants' letter.
35. An appropriate form of reporting accountants' letter is attached as Appendix 1.
36. As mentioned in paragraph 3 above, any valuation of assets (except for property interests (as defined in Listing Rule 5.01(3) and GEM Rule 8.01(3)) or businesses acquired by an Issuer based on discounted cash flows or projections of profits, earnings or cash flows is regarded as a profit forecast (referred to in this paragraph as a "deemed forecast") as set out in Listing Rules 11.17 and 14.61 and GEM Rules 14.29 and 19.61. The reporting on a deemed forecast is ordinarily outside the scope of this HKSIR as the forecast period covered by a deemed forecast is longer than the maximum acceptable period set out in paragraph 24 above. The reporting accountants should adopt HKSAE 3000 to report on the calculations and, where applicable, the accounting policies of a deemed forecast. Nevertheless, the reporting accountants can make reference to the work and procedures on Profit Forecasts set out in this HKSIR when reporting on a deemed forecast except that the preparation of such a forecast may not involve the application of accounting policies (for example, in the case of a deemed forecast relating to a valuation based on discounted cash flows). In addition, the compilation of and the key assumptions supporting the forecast may be set out in the valuation model itself rather than in a separate board memorandum. The reporting accountants should appropriately modify their work and the reporting on a deemed forecast to take account of these differences.

#### **Consent letter**

37. The regulations require that a reporting accountants' letter contained in a document must be accompanied by a statement that the reporting accountants have given in writing, and not withdrawn, their consent to its publication.
38. Most of the documents containing profit forecasts are also prospectuses for Companies (Winding Up and Miscellaneous Provisions) Ordinance purposes, in which case there is a statutory requirement that the consent specifically refers to the statement being included, in the form and context in which it is included, and that the statement that the consent has been given and has not been withdrawn should appear in the prospectus.

#### **Reporting on Statements of Sufficiency of Working Capital**

39. When reporting on the Working Capital Statement, the reporting accountants should plan and perform the work in accordance with this HKSIR and with reference to HKSAE 3000. The degree of work 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. The reporting accountants should follow the guidance as set out in paragraph 28 above in determining materiality when reporting on the Working Capital Statement. The approach to such an assignment typically may include those procedures and considerations applicable to a Profit Forecast as set out in paragraphs 29 and 30 above and the following:
  - (a) comparing the forecast with the group's existing financing facilities and cash resources, or that are to become available to the group;
  - (b) in general, independently obtaining direct confirmation from the appropriate third party of the extent of financing facilities and resources available to the group. The extent of amounts confirmed is discussed in greater detail in paragraph 41 below. Where requested confirmations have not been returned, the reporting accountants should

- evaluate the reasons (for example, whether there is doubt over the availability of such financing) and should also seek to obtain suitable alternative evidence;
- (c) considering adjustments for items such as capital expenditure and prepayments which exert no impact on the Profit Forecast but may significantly impact the working capital forecast; and
  - (d) considering management's sensitivity analysis and the extent of any margin or headroom.
40. Whilst the reporting accountants will consider the key assumptions, in doing so they are not giving any separate assurance on the validity of those assumptions, as such consideration is made in the context of issuing their letter on the Working Capital Statement as a whole in the form and context in which it is made. In cases where an assumption appears unreasonable or overly optimistic the working capital forecast may have sufficient headroom or the effects of other more conservative assumptions may counteract the effect of an unreasonable or aggressive assumption, so that, when considered in aggregate, the reporting accountants may nevertheless be able to conclude that the Working Capital Statement is made by the Issuer's directors, in the form and context in which it is made, after due and careful enquiry.
41. The directors should ordinarily set out in the board memorandum the financing facilities and resources available to the Issuer as of a specified date and, where applicable, those expected to be available to the Issuer at future dates during the forecast period. The directors should identify in the board memorandum which financing facilities and resources are required to satisfy their statement regarding the adequacy of working capital. The reporting accountants should seek to confirm the amount of existing financing facilities and resources as of the specified date to the extent that they are identified by the directors as needed for the forecast working capital to be sufficient. The reporting accountants may consider confirming the remaining financing facilities and resources that existed as of the specified date taking appropriate account of sensitivity analyses prepared by the directors. For example, if an Issuer requires financing facilities of HKD 100 million as part of its working capital forecast and has separately identified such facilities in the board memorandum, but facilities of say HKD 300 million are available as of the specified date, the reporting accountants may determine only to obtain confirmation of the existence of those facilities amounting to HKD 100 million. The reporting accountants may obtain confirmation of the remaining facilities of HKD 200 million, in whole or in part, for the purpose of giving an opinion on the Working Capital Statement taking into account the sensitivity analyses and the level of headroom available in the working capital forecast. The reporting accountants ordinarily are not in a position to obtain direct confirmation from the appropriate third party in respect of financing facilities and resources that are expected to be available to the Issuers at future dates. The reporting accountants should consider the assumptions as to the availability of such future facilities and resources as part of their procedures as described in paragraph 40 above. The reporting accountants should make clear the extent of financing facilities for which evidence of written confirmation has been obtained.
42. As the Issuer's directors have sole responsibility for their statement regarding the adequacy of working capital, the reporting accountants should satisfy themselves that the directors have considered all the relevant information with due care. The reporting accountants should obtain appropriate and sufficient evidence that the working capital forecast and the related board memorandum have been formally approved by the board, for example by being recorded in the board minutes, or by obtaining a representation letter or other suitable evidence of approval.
43. Where there may be concern or doubts on the sufficiency of working capital (for example, if sufficiency of working capital is dependent on future events such as a minimum net proceeds raised in an initial public offering, or if the availability of sources of finance is contingent on certain conditions being fulfilled), as part of their procedures, the reporting accountants should evaluate whether the Working Capital Statement adequately draws attention to any such matters, before concluding whether the Working Capital Statement, in the form and context in which it is made, has been made after due and careful enquiry.

44. The letter on the Working Capital Statement also needs to report whether the persons or institutions providing finance to the group have confirmed in writing that such financing facilities exist. As noted in paragraphs 39(b) and 41 above, the reporting accountants should normally independently obtain direct confirmations from the appropriate third party of the extent of financing facilities and resources available to the group that are required for working capital purposes. Where direct confirmation has not been received and instead the reporting accountants have relied on alternative evidence (for example, having sighted a letter from the Issuer's bankers confirming banking facilities that is addressed to the Issuer), ordinarily the reporting accountants should highlight those facilities which have not been directly confirmed to them and in respect of which they have relied on alternative evidence as well as the nature of such alternative evidence.
45. The reporting accountants' letter should clearly identify the information on which it is based. The letter should be addressed to the Issuer's directors with a copy to the sponsor, the Stock Exchange and the SFC, but it should not be referred to in the investment circular. The form of the letter will usually be that, based on the procedures performed, in the opinion of the reporting accountants, the directors have made their statement on sufficiency of working capital, in the form and context in which it is made, after due and careful enquiry and that the reporting accountants have confirmed that the persons or institutions providing finance to the group have confirmed in writing that such financing facilities exist as of a specified date to the extent that they have been identified as required by the Issuer's directors for the working capital forecast.
46. In respect of the Working Capital Statement included in an Application Proof, the reporting accountants should seek to complete the work insofar as is practicable at the time of the submission of the Application Proof to the Stock Exchange. However, as the board memorandum and the working capital forecast supporting the Working Capital Statement are likely still subject to change, and the facilities and resources expected to be available upon listing may not be fully in place at the time of the submission of the Application Proof, it will generally be inappropriate for the reporting accountants to issue a letter in final form to the Issuer's directors. The reporting accountants should present draft letters and provide verbal updates to the sponsor on the status and work performed in respect of the Working Capital Statement included in the Application Proof to assist the sponsor in providing its draft confirmation as described in paragraph 10 above.
47. In the case of a new listing of equity securities, having regard to the Stock Exchange's requirement that the listing applicant's sponsor provides a final confirmation letter on the Working Capital Statement before a listing document is bulk-printed, the reporting accountants should issue a letter on the Working Capital Statement on the same date as the date of the sponsor's final confirmation letter, which should also be the date of the final working capital forecast board memorandum approved by the directors. In addition, the reporting accountants shall be in a position to issue a second signed letter on the Working Capital Statement upon the issue of the listing document. The second letter of the reporting accountants should be in substantially the same form as the first letter, except that the second letter would be dated the date of the listing document and would refer to the final listing document, which would not have been available at the time of the issue of the first letter. The reporting accountants should obtain appropriate written representations from the directors confirming that no modification to the board memorandum and the working capital forecast supporting the Working Capital Statement is required since the date of approval of the board memorandum.
48. An example letter on a Working Capital Statement upon issue of an investment circular is set out in Example 1 of Appendix 2 to this HKSIR. An example letter on a Working Capital Statement upon the listing applicant's sponsor providing a final confirmation letter on the Working Capital Statement before a listing document is bulk-printed in the case of new listing of equity securities (i.e. the first letter referred to in paragraph 47 above) is set out in Example 2 of Appendix 2 to this HKSIR.

## Reporting on Statements of Indebtedness

49. As the date to which the Statement of Indebtedness is prepared is the most recent practicable date, typically audited financial statements for a period ending on such date are unavailable. Accordingly, the reporting accountants will often have less evidence on which to base their letter than they would have if the Statement of Indebtedness were made as at the end of an audited financial year. In these circumstances reporting accountants have to place substantial reliance on management as to the identification of amounts and disclosures in the Statement of Indebtedness.
50. When issuing a letter on a Statement of Indebtedness, the reporting accountants perform a range of agreed upon procedures on the schedule of indebtedness as agreed with the Issuer and agree the amounts disclosed in the Statement of Indebtedness as at the latest practicable date to the schedule of indebtedness. In such an engagement, the reporting accountants follow the principles in Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" ("HKSRS 4400") and the guidance in this HKSIR.
51. The reporting accountants' procedures on the Issuer's indebtedness, as a minimum, typically may include:
- (a) obtaining the schedule of indebtedness prepared by the directors including a complete list of bankers and other lenders of the group;
  - (b) agreeing amounts to the Issuer's records;
  - (c) obtaining bank reconciliations;
  - (d) checking that cash book figures are included in the schedule of indebtedness;
  - (e) in respect of debt securities, checking the amounts to underlying agreements;
  - (f) comparing amounts disclosed in respect of mortgages and charges to bank confirmations received directly by the reporting accountants or, in the absence of such, to loan agreements or similar documents;
  - (g) obtaining direct confirmation from banks and other lenders and finance providers regarding the amounts of term loans and other borrowings or indebtedness in the nature of borrowing outstanding at the relevant date and whether the amounts are secured or if such confirmation has not been received, setting out the alternative evidence in support of the amount; and
  - (h) obtaining written representations from the Issuer's directors regarding the completeness and accuracy of the amounts disclosed in the schedule of indebtedness.
52. The reporting accountants are not required to report on the reconciling items included in the reconciliations prepared by the Issuer in respect of its bank or other indebtedness. However, the reporting accountants should seek explanations from the Issuer's management on large and unusual reconciling items and consider whether anything has come to their attention to indicate that adjustments should be made to the schedule of indebtedness. For example, adjustments may arise on fair value accounting of certain financial instruments. The extent of such enquiries and other procedures will be a matter for the reporting accountants' judgement.
53. The identification and quantification of contingent liabilities or guarantees are subject to management's judgment. Reporting accountants can agree to report on contingent liabilities prepared by the directors provided the amounts of such contingent liabilities are subject to the Issuer's internal controls, policies and procedures of which reporting accountants have knowledge.

54. The reporting accountants' procedures on the amounts of contingent liabilities or guarantees would typically include:
- (a) obtaining the schedule of contingent liabilities or guarantees prepared by the directors;
  - (b) agreeing amounts to the Issuer's records;
  - (c) reading board minutes;
  - (d) obtaining direct confirmation from banks regarding the amounts of guarantees provided as at the relevant date or if such confirmation has not been received, setting out the alternative evidence in support of the amount;
  - (e) in respect of litigation obtaining confirmation from Issuer's external legal counsel. However, the reporting accountants should also make clear that they do not comment on matters subject to legal interpretation and nor can they give any assurance on the eventual outcome of any litigation;
  - (f) comparing items and amounts disclosed in the schedule to items and amounts disclosed in the historical financial information on which the reporting accountants have issued their accountants' report; and
  - (g) obtaining written representations from the Issuer's directors regarding the completeness and accuracy of the information disclosed in the schedule of indebtedness, as well as on other matters where the reporting accountants so require.
55. Reporting accountants would generally not be in a position to comment on management's discussion and analysis of indebtedness or contingent liabilities which primarily involves the exercise of management's judgment. For example, the possibility of obtaining a loan in the future or the outcome of litigation may not be within the reporting accountants' knowledge and expertise.
56. Where the reporting accountants identify any errors or discrepancies, they should discuss these with management. Where they believe it to be necessary, the reporting accountants request management to amend the amounts disclosed in the investment circular. Where management does not make amendments that the reporting accountants believe to be necessary, the reporting accountants consider the need to draw attention to the errors or discrepancies in their letter or whether to withhold issuing their letter until the matters are addressed to their reasonable satisfaction.
57. The reporting accountants issue a letter on the Statement of Indebtedness reporting factual findings in respect of the agreed-upon procedures performed, including appropriate details of errors and exceptions found. The letter should be addressed to the Issuer's directors with a copy to the sponsor, but it should not be referred to in the investment circular. A copy of the reporting accountants' letter may also be provided to the Stock Exchange and the SFC upon their request.
58. In respect of the Statement of Indebtedness presented in an Application Proof, the reporting accountants may also be engaged to report on indebtedness information as at a date that is different from and earlier than the date used for the purpose of the final investment circular. The reporting accountants would normally be in a position to issue a letter on the factual findings in respect of the agreed-upon procedures performed regarding the indebtedness position as at the earlier date, even though the Statement of Indebtedness is expected to be updated in the final investment circular, provided that the agreed-upon procedures have been performed and subject to the relevant requirements set forth in HKSRS 4400 and in this HKSIR.
59. An example letter on a Statement of Indebtedness is set out in Appendix 3 to this HKSIR.

## Appendix 1

### Example letter on a Profit Forecast

*The following example letter is provided for illustrative purposes only. It is intended to be used only as a guide to the possible form and content of a letter that reporting accountants may wish to provide, and is not intended to suggest standard wording to be used in any particular set of circumstances.*

(letterhead of reporting accountants)

The Board of Directors  
XYZ Limited

Sponsor Limited

Dear Sirs,

[XYZ Limited] ("the Company")

#### **Profit [Forecast]/[Estimate] for [Period/Year][Ending/Ended][Date]**

We refer to the [forecast]/[estimate] of the [combined]/[consolidated] profit attributable to equity holders of the Company for the [period/year][ending/ended] [date] ("the Profit [Forecast]/[Estimate]") set forth in the section headed [Financial Information] in the prospectus of the Company dated [date] ("the Prospectus").

#### **Responsibilities**

The Profit [Forecast]/[Estimate] has been prepared by the directors of the Company based on the audited [combined]/[consolidated] results of the Company and its subsidiaries (collectively referred to as "the Group") for the [x] months ended [date], the unaudited [combined]/[consolidated] results based on the management accounts of the Group for the [x] months ended [date] and [a forecast]/[an estimate] of the [combined][consolidated] results of the Group for the remaining [x] months [ending]/[ended] [date].

The Company's directors are solely responsible for the Profit [Forecast]/[Estimate]. It is our responsibility to form an opinion on the accounting policies and calculations of the Profit [Forecast]/[Estimate] based on our procedures.

#### **Basis of opinion**

We carried out our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Profit [Forecast]/[Estimate] in accordance with the assumptions made by the directors and as to whether the Profit [Forecast]/[Estimate] is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

## Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit [Forecast]/[Estimate] has been properly compiled in accordance with the [bases and assumptions][bases] adopted by the directors as set out in Appendix [x] of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated [date], the text of which is set out in Appendix [x] of the Prospectus.

Yours faithfully,

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

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## Note

1. *If any assumption used in the preparation of the Profit Forecast appears to the reporting accountants to be unrealistic or if any important assumption has been omitted in the forecast, the reporting accountants should include an appropriate comment in the letter. The comment should ordinarily be included in a separate section after the opinion paragraph.*

*The reporting accountants may also include an additional paragraph in the separate section after the opinion paragraph to draw users' attention in the case that the Profit Forecast involves assumptions of a high level of uncertainty, such as the projected change in fair value of investment properties during the forecast period. An example paragraph is set out below:*

### **"Other matter**

*We draw attention to Section [X] of Appendix [X] headed "Bases and Assumptions" on pages [xx] to [xx] of the Prospectus which sets out the assumptions adopted by the directors of the Company regarding the fair value of the Group's investment properties as at [31 December 20X3]. In preparing the Forecast, the directors of the Company have assumed that there will be an increase in the amount of [x] in fair values of the Group's investment properties from [date] to [31 December 20X3]. The actual increase or decrease in the fair value of the Group's investment properties is likely to be different from the amount estimated or forecast. Any difference between the actual increase or decrease in fair value of the Group's investment properties during the period from [date] to [31 December 20X3] when compared to the amount as estimated by the directors of the Company would have the effect of increasing or decreasing the consolidated profit of the Group for the year ending [31 December 20X3] attributable to owners of the Company. Our opinion is not qualified in respect of this matter."*

## Appendix 2

### Example letter on a Working Capital Statement

*The following example letter is provided for illustrative purposes only. It is intended to be used only as a guide to the possible form and content of a letter that reporting accountants may wish to provide, and is not intended to suggest standard wording to be used in any particular set of circumstances.*

#### **Example 1 - upon issue of the investment circular**

(letterhead of reporting accountants)

The Board of Directors  
XYZ Limited

Dear Sirs,

[XYZ Limited] ("the Company")

#### **Directors' Statement of Sufficiency of Working Capital**

We refer to the board memorandum dated [date] which has been prepared by the directors of the Company in connection with their statement relating to the sufficiency of working capital of the Company and its subsidiaries (collectively referred to as "the Group") ("the Statement") contained in section headed [Working Capital Statement] in the investment circular dated [date] ("Investment Circular"). Copies of the board memorandum and extracts of the Investment Circular, for which the directors of the Company are solely responsible, are attached hereto and stamped by us solely for the purpose of identification.

#### **Responsibilities**

The Company's directors are solely responsible for the Statement and the board memorandum, including the working capital forecast therein, in support of the Statement.

It is our responsibility to form an opinion on the Statement and to report our opinion to you.<sup>1</sup>

#### **Basis of opinion**

We carried out our work in accordance with the terms of our engagement letter dated [date] and Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether the Company's directors have made the Statement, in the form and context in which it is made, after due and careful enquiry. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the working capital forecast is based and applying analytical procedures to financial data in the working capital forecast. It is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.



## Opinion

On the basis of our procedures, we report that:

- (a) in our opinion, the Statement has been made by the directors of the Company after due and careful enquiry; and
- (b) the persons or institutions providing finance have confirmed in writing the existence of such facilities as of [date] that are shown to be required by the Company's working capital forecast.

## Other matters

Without qualifying our opinion, we draw your attention to the sensitivity factors set out in paragraph [x] of the board memorandum.

Furthermore, the Statement is based on the Company's forecasts and estimation of future transactions and cash flows and other assumptions about the future. Actual cash flows are likely to be different from those estimated or forecast since anticipated events frequently do not occur as expected and unforeseen events may arise, and their impact on estimates and forecasts may be material.

We make no representation regarding the sufficiency for your purposes of the aforementioned procedures.

This letter has been prepared in connection with [the proposed listing of the Company's shares on The Stock Exchange of Hong Kong Limited]<sup>2</sup>. It should not be relied upon by any party for any other purpose and we expressly disclaim any liability or duty to any party in this respect. It should not be disclosed, referred to or quoted in whole or in part without our prior written consent, nor is it to be filed with or referred to in whole or in part in the Investment Circular or any other document, except that references may be made to its existence in (i) contracts among any of the Company, [Name of sponsor(s)] and ourselves and (ii) any communications in relation to the [proposed listing] among any of the Company, [Name of sponsor(s)] and ourselves, and a copy of this letter may be included in the bible of transaction documents memorialising the [proposed listing] prepared for the Company. Nothing in the preceding sentence shall prevent [Name of sponsor(s)] from disclosing this letter to [their][its] professional advisers or as may be required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements [Name of sponsor(s)] [are][is] complying with.

Yours faithfully,

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

cc [Name of sponsor(s)]  
The Stock Exchange of Hong Kong Limited  
Securities and Futures Commission

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## Notes

1. *Reporting accountants may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Example text is included towards the end of this example letter.*
2. *Or state other purpose where appropriate.*

**Example 2 - upon the listing applicant's sponsor providing a final confirmation letter on the Working Capital Statement before a listing document is bulk-printed in the case of new listing of equity securities**

(letterhead of reporting accountants)

The Board of Directors  
XYZ Limited

Dear Sirs,

[XYZ Limited] ("the Company")

**Directors' Statement of Sufficiency of Working Capital**

We refer to the board memorandum dated [date] which has been prepared by the directors of the Company in connection with their statement relating to the sufficiency of working capital of the Company and its subsidiaries (collectively referred to as "the Group") ("the Statement") contained in section headed [Working Capital Statement] therein. A copy of the board memorandum, for which the directors of the Company are solely responsible, is attached hereto and stamped by us solely for the purpose of identification.

**Responsibilities**

The Company's directors are solely responsible for the Statement and the board memorandum, including the working capital forecast therein, in support of the Statement.

It is our responsibility to form an opinion on the Statement and to report our opinion to you.<sup>1</sup>

**Basis of opinion**

We carried out our work in accordance with the terms of our engagement letter dated [date] and Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether the Company's directors have made the Statement, in the form and context in which it is made, after due and careful enquiry. Our work was limited primarily to making inquiries of the Company's management, considering the analyses and assumptions on which the working capital forecast is based and applying analytical procedures to financial data in the working capital forecast. It is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

## Opinion

On the basis of our procedures, we report that:

- (a) in our opinion, the Statement has been made by the directors of the Company after due and careful enquiry; and
- (b) the persons or institutions providing finance have confirmed in writing the existence of such facilities as of [date] that are shown to be required by the Company's working capital forecast.

## Other matters

Without qualifying our opinion, we draw your attention to the sensitivity factors set out in paragraph [x] of the board memorandum.

Furthermore, the Statement is based on the Company's forecasts and estimation of future transactions and cash flows and other assumptions about the future. Actual cash flows are likely to be different from those estimated or forecast since anticipated events frequently do not occur as expected and unforeseen events may arise, and their impact on estimates and forecasts may be material.

We make no representation regarding the sufficiency for your purposes of the aforementioned procedures.

This letter has been prepared in connection with [the proposed listing of the Company's shares on The Stock Exchange of Hong Kong Limited]<sup>2</sup>. It should not be relied upon by any party for any other purpose and we expressly disclaim any liability or duty to any party in this respect. It should not be disclosed, referred to or quoted in whole or in part without our prior written consent, nor is it to be filed with or referred to in whole or in part in the [prospectus for the proposed listing] or any other document, except that references may be made to its existence in (i) contracts among any of the Company, [Name of sponsor(s)] and ourselves and (ii) any communications in relation to the [proposed listing] among any of the Company, [Name of sponsor(s)] and ourselves, and a copy of this letter may be included in the bible of transaction documents memorialising the [proposed listing] prepared for the Company. Nothing in the preceding sentence shall prevent [Name of sponsor(s)] from disclosing this letter to [their][its] professional advisers or as may be required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements [Name of sponsor(s)] [are][is] complying with.

Yours faithfully,

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

cc Name of sponsor(s)  
The Stock Exchange of Hong Kong Limited  
Securities and Futures Commission

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## Notes

1. *Reporting accountants may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report". Example text is included towards the end of this example letter.*
2. *Or state other purpose where appropriate.*

### Appendix 3

#### Example letter on a Statement of Indebtedness

*The following example letter is provided for illustrative purposes only. It is intended to be used only as a guide to the possible form and content of a letter that reporting accountants may wish to provide, and is not intended to suggest standard wording to be used in any particular set of circumstances. The contents of the letter will vary according to the procedures agreed between reporting accountants, the Issuer and sponsors, where appropriate.*

(letterhead of reporting accountants)

The Board of Directors  
XYZ Limited

Dear Sirs,

#### Statement of Indebtedness

This letter is written to you pursuant to the terms agreed between us in our engagement letter dated [date]. For the purpose of this letter, we have carried out the procedures agreed with you as set out below with regard to the attached statement of indebtedness and contingent liabilities of [XYZ Limited] ("the Company") and its subsidiaries (collectively referred to as "the Group") as at [latest practicable date]<sup>1</sup> ("the Statement") prepared by the directors of the Company for inclusion in the investment circular dated [date]<sup>2</sup> ("Investment Circular"). We carried out our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Related Services ("HKSRs") 4400 "Engagements to Perform Agreed-upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our work in respect of the Statement has in turn been based on a schedule of indebtedness ("Schedule") prepared by the directors of the Company from the Group's accounting records in support of the Statement.

Both the Statement and Schedule are the sole responsibility of the directors of the Company. Copies of the Statement and Schedule are attached hereto and stamped by us for the purpose of identification only.

1. Bank loans and overdrafts, debt securities and other borrowings, mortgages and charges<sup>3</sup>
  - a. [We have compared the amounts shown on the Statement with the relevant amounts included in the Schedule and found them to be in agreement [or state the differences, if any].]
  - b. [We have enquired of management whether reconciliations have been prepared where amounts in the Schedule are different to the amounts in the relevant bank statements at the relevant date. Management have confirmed that these reconciliations have been appropriately performed and reviewed<sup>4</sup>.]
  - c. [We have requested confirmations from the banks[, the relevant trustee]<sup>5</sup> and other providers of finance listed on the Schedule confirming the balances with them and the mortgages and charges at that date. We have compared the amounts shown on the

confirmations with the relevant amounts included in the Schedule and found the amounts to be in agreement or where the amounts confirmed were different to the amounts in the [Company/Group]'s books and records, we traced them to reconciliations prepared by the [Company/Group] and found them to be in agreement. We have indicated on the Schedule those balances, mortgages and charges which have been directly confirmed to us. [We have not received confirmations in respect of balances which account for [x]% of the amount included on the Schedule and have noted alternative sources of evidence on the Schedule (e.g. bank statements where available).]

- d. [We have compared the amounts of debt securities shown in the Schedule to copies of agreements made available to us by the [Company/Group] and found the amounts noted to be in agreement];

2. Finance lease commitments<sup>6</sup>

[We have compared the amounts shown on the Statement with the relevant amounts included in the Schedule and found them to be in agreement [or state the differences, if any].] [We have compared a selection of items (as noted in the Schedule) to copies of lease agreements made available to us by the [Company/Group] and found the amounts noted to be in agreement.]<sup>6</sup>

3. Contingent liabilities or guarantees<sup>6</sup>

In relation to contingent liabilities or guarantees we have:

- a. [compared the amounts shown on the Statement with the relevant amounts included in the Schedule and found them to be in agreement [or state the differences, if any];]
- b. [read the items on the Schedule which, in the view of the directors of the Company, would at [latest practicable date] be expected to be disclosed pursuant to [Hong Kong Accounting Standard ("HKAS") /International Accounting Standard ("IAS")] 37 "Provisions, Contingent Liabilities and Contingent Assets" in any financial statements of the [Company/Group] were they to be prepared at that date;]
- c. [read the minutes of board meetings and made inquiries of management with responsibility for financial and accounting matters as to whether they are aware of any other contingent liabilities which, in their view would be expected to be disclosed pursuant to [HKAS/IAS] 37 in any published financial statements of the Company were they to be prepared at the [latest practicable date]<sup>4</sup>;]
- d. [requested confirmations from the banks listed on the Schedule confirming the amounts of guarantees at that date. We have compared the amounts shown on the confirmations with the relevant amounts included in the Schedule and found the amounts to be in agreement. We have indicated on the Schedule those amounts which have been directly confirmed to us. [We have not received confirmations in respect of amounts of guarantees which account for [x]% of the amount included on the Schedule and have noted alternative sources of evidence on the Schedule (e.g. bank letters where available);]
- e. [noted on the Schedule the sources of evidence in support of the amounts disclosed by the Company.]

We have placed reliance on representations from the directors of the Company as to the completeness of the amounts shown in the Statement and Schedule.

We make no representations regarding questions of legal interpretation or regarding the sufficiency for your purposes of the aforementioned procedures; also, such procedures do 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, and therefore would not necessarily reveal any material misstatement of the amounts or percentages or ratios listed above. We do not express any assurance on the Statement or Schedule.

Further, we have addressed ourselves solely to the foregoing data in the Investment Circular and we make no representations regarding the adequacy of disclosures or regarding whether any material facts have been omitted.

This letter has been prepared in connection with [the proposed listing of the Company's shares on The Stock Exchange of Hong Kong Limited]<sup>8</sup>. It should not be relied upon by any party for any other purpose and we expressly disclaim any liability or duty to any party in this respect. It should not be disclosed, referred to or quoted in whole or in part without our prior written consent, nor is it to be filed with or referred to in whole or in part in the Investment Circular or any other document, except that references may be made to its existence in (i) contracts among any of the Company, [Name of sponsor(s)] and ourselves and (ii) any communications in relation to the [proposed listing] among any of the Company, [Name of sponsor(s)] and ourselves, and a copy of this letter may be included in the bible of transaction documents memorialising the [proposed listing] prepared for the Company. Nothing in the preceding sentence shall prevent [Name of sponsor(s)] from disclosing this letter to [their][its] professional advisers or as may be required by law, regulation or court order or the rules or requirements of a regulatory body or stock exchange whose requirements [Name of sponsor(s)] [are][is] complying with.

Yours faithfully,

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

[cc [Name of sponsor(s)]]

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*Notes*

- 1. Latest practicable date is normally no more than two calendar months prior to the issuance of the investment circular or, if applicable, the date of the Application Proof.*
- 2. In the case that where the reporting accountants are reporting on the information in an Application Proof, "investment circular dated [date]" should be amended as "draft listing document to be submitted to The Stock Exchange of Hong Kong Limited"*
- 3. Details of mortgages and charges are also a legal issue, in respect of which the Issuer and sponsor may need to discuss with the Issuer's legal advisors.*
- 4. Management's confirmation could be obtained in the form of management representation.*
- 5. May be applicable in the case of debentures.*
- 6. To be included where applicable.*
- 7. Where finance lease balances are material in the context of total indebtedness, it may be appropriate to agree with the Issuer and sponsor that independent confirmation of the amount of the outstanding lease rentals should be sought.*
- 8. Or state other purpose where appropriate.*

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 (April 2014)**

**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.

This AG 3.341 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 3.341 (April 2014)**

**STATEMENT 3.341**  
**AUDITING GUIDELINE**  
**ACCOUNTANTS' REPORT ON PROFIT FORECASTS**

*(Issued May 1988; revised September 2004 (name change) and April 2014)*

**Introduction**

1. This guideline is for the guidance of members required to report on profit forecasts in connection with a prospectus for the public issue of shares to be listed by The Stock Exchange of Hong Kong Limited or to report on profit forecasts as required under Rule 19 of the Hong Kong Code on Takeovers and Mergers. This guideline is not necessarily applicable to banking, shipping and insurance companies which claim exemption from the disclosure requirements under Part III of the Tenth Schedule to the Companies Ordinance Cap. 32. However, where applicable this guideline should be followed for those companies.
2. This guideline may also assist accountants when making arrangements to issue reports on profit forecasts other than under the above. However, the guideline is not directly concerned with such reports. All instructions from clients beyond the scope of the regulations referred to above should be in writing, for it will be those instructions which will determine the accountants' wider responsibilities, if any.
3. The guideline is issued after discussion with the Registrar General, the Commissioner for Securities, and The Stock Exchange of Hong Kong Limited.

**Regulations relating to profit forecasts**

4. There is no specific regulation or requirement that prospectuses or offer documents should incorporate a profit forecast. However it is generally accepted that prospectuses and offer documents include a profit forecast which should be reported upon by independent accountants.

The main regulation in relation to profit forecasts when they are issued is contained in Rule 19 of the Hong Kong Code on Takeovers and Mergers which provides that profit forecasts must be compiled with the greatest possible care by directors, whose sole responsibility they are, and that the assumptions upon which the directors have based their forecasts are clearly stated. Rule 19 requirements relating to auditors or reporting accountants (hereinafter referred to as "reporting accountants") are that they should examine and report on the accounting policies and calculations used in the profit forecast and whether the accounting policies differ from the policies adopted in the company's financial statements.

In addition:

- (a) Paragraph 3 of Part I of the Third Schedule to the Companies Ordinance provides for a prospectus to include "sufficient particulars and information to enable a reasonable person to form as a result thereof a valid and justifiable opinion of the shares or debentures and the financial condition and profitability of the company at the time of the issue of the prospectus"; and
  - (b) the Registrar General has indicated that if a profit forecast is contained therein, a prospectus must contain a report by the reporting accountants stating that they are satisfied that the profit forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors.
5. The Companies Ordinance and the Hong Kong Code on Takeovers and Mergers require a statement that the reporting accountants have given and have not withdrawn their consent to publication of their letter in a prospectus.