A GUIDE TO UNDERSTANDING AUDITING AND ASSURANCE:

HONG KONG LISTED COMPANIES

MARCH 2022

EY 安永
Building a better working world

CPA AUSTRALIA

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FOREWORD

High-quality audits enhance trust and confidence in capital markets and facilitate economic growth. Maintaining the highest level of audit quality is therefore a key priority and measure on which the audit profession's reputation stands.

CPA Australia and EY hold the view that, in order to appreciate the merits and impact of proposed changes, investors and other stakeholders must first understand the existing reporting and auditing frameworks.

We consider that high-quality audits are vital to inspiring confidence and trust across the capital markets, serving the public interest, and ultimately building a better working economy.

It is with these convictions that CPA Australia and EY Hong Kong have collaborated to develop this publication, A guide to understanding auditing and assurance: Hong Kong listed companies.

This guide captures the auditing and assurance landscape in Hong Kong, including all the current requirements impacting the auditor's report.

We use plain language to explain the value and purpose of auditing and assurance. This will assist shareholders, investors and other readers of financial statements who are not experts in auditing and assurance, to interpret and make use of this information in their decision-making.

This guide is part of CPA Australia's ongoing commitment to serving the public interest by contributing to enhanced financial literacy in Hong Kong and across the Asia-Pacific.

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THE PURPOSE AND SCOPE OF AUDITS AND REVIEWS

WHY ARE AUDITS AND REVIEWS REQUIRED?

Shareholders of listed companies are usually quite separate from those managing and governing the companies they own.[1] They need a reliable and independent source of financial information on which to assess the company, and the performance of management and **those charged with governance**. It is the same for other stakeholders of companies, such as creditors, lenders, employees, analysts, prospective shareholders, regulators, governments and communities. Audits and reviews enhance the credibility of the information contained within the **financial statements**,[2] comprising:

- the financial statements; and
- notes to the financial statements.

This information enables shareholders and other stakeholders to make assessments and decisions such as investing, divesting, lending or contracting with the company, with confidence and on a consistent basis.

In Hong Kong, an audit of a listed company's financial statements is required annually.

WHAT DO USERS NEED TO UNDERSTAND ABOUT FINANCIAL STATEMENTS?

Auditors consider the information needs of users of financial statements when determining what is important (material) to those users. This drives what the auditor will focus on. It is reasonable for the auditor to assume that users of the financial statements:[3]

a) have a reasonable knowledge of business, economic activities and accounting, as well as a willingness to study the information in the financial statements with reasonable diligence;

b) understand that the financial statements are prepared, presented and audited to levels of materiality;

c) recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and

d) make reasonable economic decisions on the basis of the information in the financial statements.

[1]This guide refers to audits and reviews of listed company financial statements in Hong Kong. The concepts of audit and review are also applicable to other types of entities such as private companies, companies limited by guarantee and public sector entities.

[2]As defined under the Hong Kong Companies Ordinance, Part 9 and the Hong Kong Accounting Standard 1 (Revised) - Presentation of Financial Statements paragraph 10.

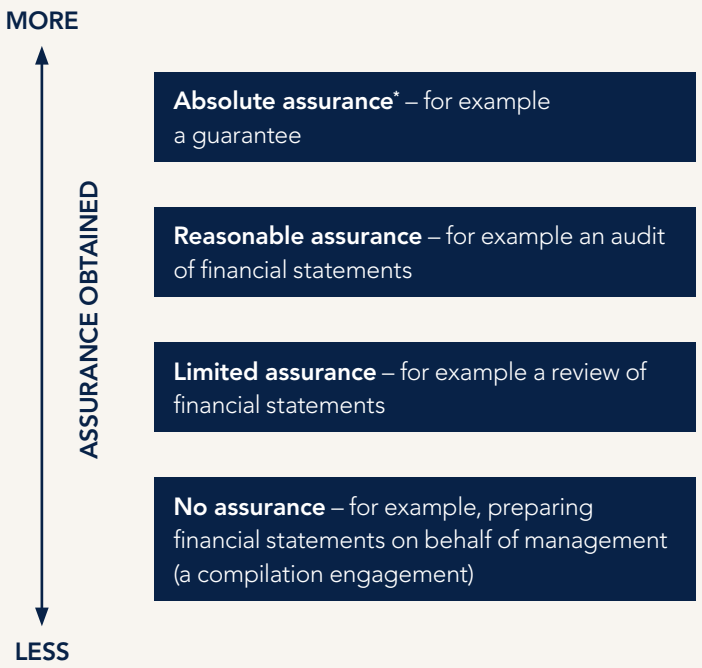
[3]Source: Hong Kong Standard on Auditing 320 – Materiality in Planning and Performing the Audit, paragraph 4.

WHAT DOES ASSURANCE MEAN?

The term **assurance** refers to the expression of a conclusion by an **assurance practitioner** that is designed to enhance the degree of confidence of its intended users, other than the responsible party, about the outcome of the evaluation or measurement of a subject matter against criteria. An audit is a form of assurance engagement which provides an opinion giving **reasonable assurance** on the **financial statements**.

An auditor is an assurance practitioner who conducts an audit. Therefore, an **auditor's report** provides a conclusion that increases the confidence that users can place in a company's financial statements. There are differing levels of assurance, which result in different types of conclusions, depending on the type of work that the assurance practitioner performs.

The following diagram illustrates different levels of assurance, in some of the different activities performed by accountants:



*Auditors do not give absolute assurance.

WHAT IS THE IMPACT OF THE LEVEL OF ASSURANCE?

TYPE OF ASSURANCE	FOR EXAMPLE	NATURE OF KEY WORK PERFORMED	EXAMPLE FORM OF CONCLUSION
Reasonable assurance	An audit of **financial statements**	Gathering of sufficient appropriate audit evidence based on an assessment of risk and materiality to support the auditor's opinion.	In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20XX, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA")[4] and have been properly prepared in compliance with the Hong Kong Companies Ordinance.[5,6] This is commonly referred to as positive assurance.
Limited assurance	A **review** of a half-year financial statements	Primarily enquiries and analytical review, with less detailed procedures, based on an assessment of risk and materiality to support the auditor's conclusion.	Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 - Interim Financial Reporting.[4,7] This is commonly referred to as negative assurance.
No assurance	• Preparing financial statements (compilation engagement).	• Preparation of the financial statements.	• No conclusion provided.
	• Agreed-upon procedures.	• Performing an agreed set of procedures.	• Factual findings from performing the procedures reported but no opinion (either positive or negative) is provided to the users on the work that has been undertaken.

[4]A company incorporated overseas and listed in Hong Kong can apply International Financial Reporting Standards ("IFRS"). An issuer which is duly incorporated in the People's Republic of China ("PRC") as a joint stock limited company can apply China Accounting Standards for Business Enterprises.

[5]Hong Kong Standard on Auditing 700 (Revised) - Forming an Opinion and Reporting on Financial Statements provides the requirements for the auditor's report.

[6]Companies incorporated overseas having a primary listing in Hong Kong and PRC companies listed in Hong Kong are required by the Listing Rules to comply with the disclosure requirements of the Hong Kong Companies Ordinance and subsidiary legislation.

[7]Hong Kong Standard on Review Engagements 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity provides the requirements for the review report.

WHAT IS AN AUDIT OF FINANCIAL STATEMENTS?

An audit of a listed company's financial statements is a **reasonable assurance** engagement where the auditor provides an opinion about whether the financial statements are prepared in accordance with Hong Kong Financial Reporting Standards[8] and properly prepared in compliance with the Hong Kong Companies Ordinance.[9] This includes giving a true and fair view of the financial position of the company at the year end, and of its financial performance for the period then ended, and complying with the Hong Kong **Accounting Standards**.[8] Full-year financial statements of Hong Kong listed companies are required to be audited. An audit of the financial statements is required for all Hong Kong companies, including companies falling within the reporting exemption, except dormant companies.[10]

While the reasonable assurance obtained in an audit is a high level of **assurance**, it is not absolute assurance (that is, it is not a certification that the financial statements are completely correct).

Obtaining absolute assurance is not possible in financial statements audits for a number of reasons, including:

- It would be impractical for the auditor to test and audit every transaction or balance.
- Preparation of the financial statements involves judgements and estimates by management and may be contingent on future events, which means that valuation of assets or liabilities in the financial statements often cannot be determined precisely.

WHAT IS A REVIEW OF FINANCIAL STATEMENTS?

A review of quarter or half-year financial statements, referred to as interim financial statements in the accounting standards,[11] is a **limited assurance** engagement where the auditor provides a conclusion (to the users of the financial statements) as to whether the auditor has become aware of any matter that makes them believe that the interim financial statements are not prepared in all material aspects in accordance with Hong Kong Accounting Standard 34 - Interim Financial Reporting.[11]

[8]A company incorporated overseas and listed in Hong Kong can apply International Financial Reporting Standards IFRS. An issuer which is duly incorporated in the PRC as a joint stock limited company can apply China Accounting Standards for Business Enterprises.

[9]Companies incorporated overseas having a primary listing in Hong Kong and PRC companies listed in Hong Kong are required by the Listing Rules to comply with the disclosure requirements of the Hong Kong Companies Ordinance and subsidiary legislation.

[10]Section 447 of the Hong Kong Companies Ordinance.

[11]Hong Kong Accounting Standard 34 - Interim Financial Reporting.

RELATIONSHIPS IN FINANCIAL REPORTING

The following diagram illustrates the relationship between shareholders and other stakeholders, management, **those charged with governance** and the auditor. Those charged with governance are those responsible for overseeing the strategic direction and accountability obligations of the company, including the financial reporting process. In a listed company this includes the board of directors, which may include some executive members, and the audit committee.

In Hong Kong, the Corporate Governance Code requires directors to ensure that external auditors attend a company's Annual General Meeting ("AGM") to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.[12]

[12]Code Provisions in the Corporate Governance Code are subject to a "comply or explain" regime.

WHAT IS THE ROLE OF THE AUDIT COMMITTEE?

The Hong Kong Stock Exchange ("the Stock Exchange") requires listed companies to have an audit committee[13] which is a sub-committee of the board of directors. The audit committee oversees the appointment or removal of the external auditor, the remuneration and terms of engagement of the external auditor, policies on engaging the external auditor to supply non-audit services, the nature and scope of the external audit and the auditor's independence.[14]

Consequently, the audit committee usually arranges the appointment of the auditor, which is then confirmed by the members at the AGM. The audit committee typically meets with the auditor during the year to discuss details such as scheduling, risks, financial reporting issues, the auditor's findings, matters to be included as "Key Audit Matters" in the **auditor's report** and other matters relevant to the audit of the **financial statements**. At the end of the audit, the auditor often provides a more detailed, in-depth confidential report to the audit committee.

Audit committees also oversee:

- the corporate reporting processes, internal control framework
- the preparation of the financial statements, including the appropriateness of the accounting judgements or choices exercised by management in preparing those financial statements, and
- the internal audit function.

[13]Chapter 3 of Main Board Listing Rules and Chapter 5 of the GEM Listing Rules.

[14]Terms of reference of the audit committee under the Corporate Governance Code.

WHAT INFORMATION IS AUDITED?

Only financial statements of a company's annual report are audited. The **auditor's report** provides an opinion on the **financial statements** but not on the "Other Information" contained in the annual report.

"Other Information" is financial or non-financial information, other than the financial statements and the auditor's report thereon, included in an entity's annual report.

"Other Information" is not audited, but the auditor considers whether it contains material inconsistencies with the financial statements or knowledge obtained in the audit, or otherwise appears to be materially misstated. This provides some comfort to shareholders. See section on "The Auditor's Report - Other Information".[15]

This is important to remember, as the directors provide their review of the company's business, principal risks and uncertainties, important events and likely future development in the Business Review, which forms part of the Other Information included in the annual report. As the directors' report is intended to complement and support the financial statements, it may appear to be part of the audited financial information

The financial statements may be published as part of an integrated report.[16] An integrated report addresses how an organisation's strategy, governance, performance and prospects - in the context of its external environment - lead to the creation of value in the short, medium and long term, by reporting on inputs, outputs and outcomes in relation to six capitals, of which financial capital is just one.

WHAT INFORMATION IS REVIEWED?

Interim financial statements[17] are required for half-year (Main Board and GEM) and quarterly (GEM) by the Stock Exchange.[18] A review of interim financial statements may be required by **those charged with governance**.

The work conducted in a review is primarily comprised of making enquiries of persons responsible for financial and accounting matters and performing analytical procedures, and so the scope of a review is substantially less than the scope of an audit.

ANNUAL REPORT

	Financial Statements	Other Information
Audited	✓	
NOT Audited*		✓

*Material inconsistencies with financial statements and auditor's understanding of the company identified only.

[15] Hong Kong Standard on Auditing 720 (Revised) - The Auditor's Responsibilities Relating to Other Information requires the auditor to obtain the final version of the annual report, if possible before signing their report, and consider if there is any material inconsistency with the financial statements or the knowledge they obtained on the audit.

[16] Integrated reports are prepared using the International Integrated Reporting Framework issued by the International Integrated Reporting Council ("IIRC"), within the Value Reporting Foundation.

[17] The interim financial statements are defined under Hong Kong Accounting Standard 34 - Interim Financial Reporting.

[18] Chapter 13 of Main Board Listing Rules and Chapter 18 of GEM Listing Rules.

WHAT IS AUDITOR INDEPENDENCE?

Independence is the cornerstone of the auditing profession. An independent auditor is free from external influence or bias, and therefore able to maintain integrity, make objective judgements and exercise appropriate professional scepticism during the audit.

Auditors must comply with the Code of Ethics for Professional Accountants issued by the HKICPA, including maintaining independence of mind and appearance. Therefore, auditors must not only act independently, but also be independent. These requirements are more rigorous and stringent for public interest entities, including listed companies.

For listed companies in Hong Kong, there are additional requirements to other entities, including:[19]

- rotation of auditors every seven years;
- a five-year cooling off period (where the auditor does not participate in the audit in any way or directly influence the outcome of the engagement);
- restrictions on auditors holding board positions or employment of their audit client;
- prohibitions on contingent fees, financial interests in the client or related entity, loans to or from the client, deposits with the client, close business relationships and offering or accepting inducements, gifts or hospitality;
- prohibitions on the provision of certain services to listed company audit clients, such as:
  - assuming management responsibility;
  - serving as General Counsel;
  - accounting and bookkeeping services, including preparing accounting records and preparing **financial statements**;
  - promoting, dealing in, or underwriting client shares
  - recruiting services for a director, officer or senior management who will have significant influence over accounting records if material to the financial statements,
  - valuation services, preparing tax calculations, internal audit services and designing or implementing IT systems which would impair the auditor's independence.

On 1 October 2019, the amendments to the Financial Reporting Council Ordinance (Cap. 588) took effect and the Financial Reporting Council ("FRC") became Hong Kong's independent regulator of listed entity auditors. Starting from 1 October 2019, all audit firms intending to carry out a public interest entity ("PIE") engagement as specified in the ordinance are subject to a system of registration (for Hong Kong audit firms) and recognition (for non-Hong Kong audit firms) as PIE auditors.

According to the FAQ published by the Stock Exchange on 6 September 2019, an issuer shall, for clarity, disclose the fact that its auditors for a PIE engagement are the registered or recognised PIE auditors. Entities commonly disclose the information in the Corporate Information or the Corporate Governance Report section of their annual reports.

[19] Code of Ethics for Professional Accountants

UNDERSTANDING WHAT EXTERNAL AUDITORS CAN PROVIDE

DIFFERENCE BETWEEN INTERNAL AND EXTERNAL AUDIT

Internal audit is an appraisal activity which may be established within the company and functions usually under the oversight of the company's audit committee. It is a management tool and forms part of the company's internal control structure. In general, the focus of an internal audit is to evaluate the adequacy and effectiveness of the company's internal controls.

By contrast, an external audit of a listed entity is required to be undertaken by a registered or recognised PIE Auditor, who is independent of the company. Their role is to express an opinion on the annual financial statements and an opinion (audit) or conclusion (review) on the interim financial statements.

The Code of Ethics for Professional Accountants and the Hong Kong Companies Ordinance set the requirements for appointment, removal, registration, independence and rotation of the auditor.

ASSURANCE ON NON-FINANCIAL INFORMATION

Audit is a form of **reasonable assurance** on financial information. Assurance may provide either reasonable or **limited assurance** on a wide and expanding range of subject matters. Assurance reports can provide stakeholders with confidence in subject matters ranging from:

- Environmental, Social and Governance ("ESG") Report
- compliance with legislation and regulations
- integrated reporting
- design, implementation and operating effectiveness of controls

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING

ESG Reports are required annually by the Stock Exchange in the listed company's annual report or in their website. The ESG Report must disclose the board's oversight of ESG issues, ESG management approach and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues (including risks to the issuer's businesses) and how the board reviews progress made against ESG-related goals and targets with an explanation of how they relate to the issuer's businesses. The ESG Report complements the Business Review in the Directors' Report.

The ESG Report requires disclosure on a "comply or explain" basis with respect to four environmental aspects and eight social aspects. Each aspect requires general disclosures on the issuer's policies, and in some cases, information on compliance with the relevant laws and regulations that have a significant impact on the issuer, and against key performance indicators.

Where the company is not able to report on any primary aspects, it must state so and explain what it does instead and the reasons for doing so.

As required in Appendix 27 of the Listing Rules, in December 2019, the Stock Exchange announced amendments to the Listing Rules in relation to ESG reporting, to update certain disclosure requirements and shorten the deadline for the publication of ESG reports to within five months after the financial year-end. The amendments apply to issuers' ESG reports for financial years commencing on or after 1 July 2020. In a market consultation launched in April 2021, the Stock Exchange proposed to require the publication of ESG reports at the same time as publication of annual reports (i.e. four months after year-end for Main Board issuers and three months for GEM issuers). This requirement is effective for issuers' financial years commencing on or after 1 January 2022.

See The Stock Exchange Environmental, Social and Governance Practice Disclosure

WHAT IS AUDIT QUALITY?

Audit quality is challenging to define, measure and observe as most of the valuable work auditors do happens before a company's **financial statements** are released to the public (see also "What do auditors do?").

The International Auditing and Assurance Standards Board ("IAASB") has issued a Framework for Audit Quality which says: "Audit quality encompasses the key elements that create an environment which maximises the likelihood that quality audits are performed on a consistent basis."

HOW CAN FINANCIAL STATEMENT USERS ASSESS AUDIT QUALITY?

As audit quality is difficult to measure and evaluate, shareholders and other stakeholders largely rely on the Board and audit committee to satisfy themselves that the auditor provides sufficient audit quality to give confidence in the **auditor's report**.

Sources of information which may be useful in assessing the audit quality include:

- Financial Reporting Council ("FRC") inspection reports
- Answers to questions at the AGM about:
  - reasoning for the key audit matters identified and procedures conducted to address them;
  - any modification to the auditor's report; and
  - any Emphasis of Matter, Other Matter or Material Uncertainty relating to **Going Concern** paragraphs.
- Information included in the key audit matters, including whether they are relevant to the company rather than being boiler plate.

WHAT ROLE DO LISTED COMPANIES HAVE IN OBTAINING QUALITY AUDITS?

Audit firms are ultimately responsible for performing quality audits. However the IAASB's Framework for Audit Quality recognises the importance of the contribution and support of regulators, companies and other stakeholders in achieving quality audits that support reliable financial statements in the capital markets.

The quality of financial reporting by the company can have a significant impact on the effectiveness of the audit. Directors and audit committees have an important role in ensuring the company provides a sound basis for a quality audit, including having appropriate governance arrangements, processes and controls, and providing sufficient challenge to management and the auditor.

The directors are responsible for the financial statements and need to be cognisant of their own responsibilities when assessing the information in the financial statements so that they challenge the accounting treatments, seek explanations and professional advice appropriately, rather than relying on the external auditor.

The directors must take reasonable steps to comply with, or secure compliance with, the financial reporting and audit requirements, including the requirement to keep proper accounting and other records. This includes ensuring that the company's records will sufficiently explain the transactions and financial position of the company and enable true and fair financial statements and any other documents required to be attached thereto to be prepared conveniently and properly audited.

Further, directors are responsible for devising and maintaining a system of internal accounting controls sufficient to provide **reasonable assurance** that assets are safeguarded against loss from unauthorised use and disposition, and transactions are properly authorised and recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Directors need to read and understand the financial statements, in order to ensure that the information they contain is consistent with the directors' knowledge of the company's financial position and affairs, and ensure that material matters known to the directors, or that should be known to them, are not omitted.

In general, the external auditor is refrained from engaging in non-assurance services required by the Group except for limited tax-related services or specifically approved items. This is to support and safeguard the external auditor's objectivity and independence by eliminating any pressure on the external auditor to give way to the management on audit matters in order not to jeopardise their other services, and removing any incentive for them to accept audit engagements at unreasonably low rates in order to obtain more remunerative non-audit work.

The Audit Committee is mandated to monitor the independence of the external auditor to ensure true objectivity in the financial statements, to review its statutory audit scope and non-audit services, and to approve its fees. Fees paid to the external auditor for audit and non-audit services rendered are fully disclosed in the annual reports.[20]

[20] A mandatory disclosure requirement for the Corporate Governance Report under the Corporate Governance Code.

THE AUDITOR'S REPORT

UNMODIFIED AUDIT OPINIONS AND REVIEW CONCLUSIONS

The **auditor's report** contains the auditor's opinion on the financial statements, in addition to a range of other information to explain the context in which that opinion has been reached. A **review report** contains the auditor's conclusion on the interim financial statements, which provides a lower level of **assurance** than an opinion, and also explains the context in which that conclusion was reached.

An unmodified auditor's opinion for listed companies states that in the auditor's opinion, the financial statements are prepared in accordance with the HKFRSs issued by the HKICPA[21] and have been properly prepared in compliance with the Hong Kong Companies Ordinance[22] so as to give a "true and fair view" of the company's financial position as at year end and of its financial performance for the year then ended. This is often referred to as a "clean" audit opinion.

Auditor's reports containing an unmodified auditor's opinion are the most common type of report a user is likely to come across. This is because management usually addresses most of the matters which the auditor has raised by adjusting the financial information or including further disclosures when finalising the content of the financial statements before it is issued.

Likewise, an unmodified review conclusion for a listed company's interim financial statements states that nothing has come to the auditor's attention that makes them believe that the interim financial statements are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 - *Interim Financial Reporting*.[21, 23]

WHAT DOES A "TRUE AND FAIR VIEW" MEAN?

Financial statements which give a "true and fair view" are those which present an accurate and unbiased picture of the company's financial performance and position.

This type of opinion is provided under a **fair presentation framework**, in which simply complying with the requirements of the financial reporting framework is not enough.

A fair presentation framework also requires management to provide disclosures beyond those specifically required by the reporting framework or, in rare circumstances, depart from a requirement of that framework.

[21] A company incorporated overseas and listed in Hong Kong can apply IFRS. An issuer which is duly incorporated in the PRC as a joint stock limited company can apply China Accounting Standards for Business Enterprises.

[22] Companies incorporated overseas having a primary listing in Hong Kong and PRC companies listed in Hong Kong are required by the Listing Rules to comply with the disclosure requirements of the Hong Kong Companies Ordinance and subsidiary legislation.

[23] Hong Kong Standard on Review Engagements 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity provides the requirements for the review report.

BASIS FOR OPINION

The auditor's report includes a basis for opinion paragraph, which provides important context about the auditor's opinion that:

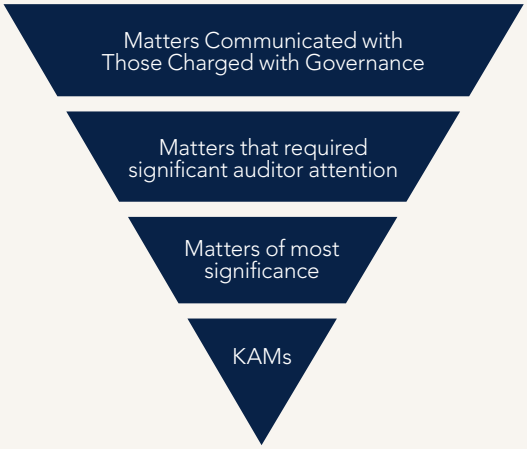
- states that the audit was conducted in accordance with Hong Kong Standards on Auditing;[24]
- refers to the section of the auditor's report that describes the auditor's responsibilities under the Hong Kong Standards on Auditing;[24]
- includes a statement that the auditor is independent of the company in accordance with the relevant ethical requirements and has fulfilled the auditor's other ethical responsibilities; and
- states whether the auditor believes that the audit evidence they obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

When the auditor modifies the opinion on the financial statements, the heading 'Basis for Opinion' is amended in accordance with the type of modified opinion (see Modified auditor's opinions below). Also, the auditor includes a description of the matter giving rise to the modification within this section.

KEY AUDIT MATTERS

Auditors of listed companies are required under the Hong Kong Standards on Auditing[25] or other standards on auditing to report "key audit matters" ("KAMs"). These are matters which are, in the auditor's professional judgement, of most significance in the audit.

KAMs are selected from matters communicated with the directors or audit committee that required significant auditor attention in performing the audit. KAMs may include areas of higher assessed risk of **material misstatement** or significant risks and significant auditor judgements relating to areas of significant management judgement.



The KAMs section includes, at a minimum:

- why the matter was considered to be a KAM
- reference to the related disclosure
- how the matter was addressed in the audit.

Standardised wording, which is used in the rest of the **auditor's report**, is not used in the KAM and the auditor needs to present the KAM in their own style and format.

[24]For companies incorporated overseas and listed in Hong Kong, the Listing Rules allow the audit to conform to International Standards on Auditing. PRC issuers may also use China Auditing Standards.

[25]Hong Kong Standard on Auditing 701 - Communicating Key Audit Matters in the Independent Auditor's Report.

EMPHASIS OF MATTER AND OTHER MATTER PARAGRAPHS

In some circumstances, the auditor will include additional wording in the auditor's report directing users to information that is not included in KAMs, but in their view is fundamental to understanding the financial statements. This may be either:

- an "Emphasis of Matter" paragraph drawing the readers' attention to matters included in the financial statements, such as a note disclosure; or
- an "Other Matter paragraph" which draws the readers' attention to matters that are not included in the financial statements.

It is important to note that an "Emphasis of Matter" or "Other Matter" paragraph is not a modification to the auditor's opinion (see Modified auditor's opinions below).

GOING CONCERN

If a material uncertainty exists relating to events or conditions that may cast significant doubt on a company's ability to continue as a **going concern**, either:

- the auditor's report includes a section "Material Uncertainty Related to Going Concern" ("MURGC") if the uncertainty is adequately disclosed in the financial statements; or
- the auditor issues a qualified or adverse opinion (see Modified auditors' opinions below) if the financial statements do not adequately disclose the matter.

If the financial statements are prepared on the going concern basis of accounting, but the use of the basis was inappropriate, the auditor will issue an adverse opinion.

When an event or condition casts a significant doubt on the company's ability to continue as a going concern, but no MURGC is included, the auditor is required to challenge the adequacy of disclosures. The auditor should assess if a key audit matter on going concern should be included if due to mitigating circumstances, the company concluded that no material uncertainty exists, so the financial statements can be prepared on a going concern basis. The going concern basis is used when the company is expected to continue in business without the threat of liquidation for the foreseeable future, which management is required to assess for at least, but is not limited to, twelve months from the end of the reporting period.[26]

OTHER INFORMATION

Although the auditor is not responsible for auditing other information in the annual report, which is not in the **financial statements**, they are required to read the other information and consider whether there is a material inconsistency between that other information and either the financial statements or the auditor's knowledge obtained in the audit.[17]

If the company refuses to correct a material inconsistency, the auditor describes the inconsistency in an "Other Information" section of the auditor's report.

If the auditor's report has already been issued and **those charged with governance** do not agree to correct the "Other Information", then the auditor must bring the inconsistency identified to the users' attention by other means.

[26] Hong Kong Accounting Standard 1 (Revised) - Presentation of Financial Statements paragraph 26.

[27] Hong Kong Standard on Auditing 720 (Revised) - The Auditor's Responsibilities Relating to Other Information

CONTENTS OF PARAGRAPHS FOR SPECIFIC MATTERS IN THE AUDITOR'S REPORT

TYPE OF PARAGRAPH	MATTERS INCLUDED
Key Audit Matters	Matters which required significant auditor attention, selected from matters communicated with **those charged with governance**, which may include: • areas of higher assessed risk of **material misstatement**, or significant risks, such as areas of significant management judgement or significant unusual transactions • significant auditor judgements relating to areas in the financial statements that involved significant management judgement, including accounting estimates that have been identified as having high estimation uncertainty and accounting policies inconsistent with the industry that have a significant effect on the financial statements • the effect on the audit of significant events or transactions with related parties or that are outside the normal course of business for the company or that otherwise appear to be unusual, that may have required management to make difficult or complex judgements in relation to recognition, measurement, presentation or disclosure.

Emphasis of Matter	Matters presented or disclosed in the financial statements that in the auditor's judgement, are of such importance that they are fundamental to users' understanding of the financial statements and are not included in KAM, which include but are not limited to:
	• where required by the auditing standards in certain circumstances. These circumstances include:
	  o when a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation
	  o to alert users that the financial statements are prepared in accordance with a special purpose framework
	  o when facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e. subsequent events).
	• an uncertainty relating to the future outcome of exceptional litigation or regulatory action
	• a significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report
	• early application (where permitted) of a new accounting standard that has a material effect on the financial statements
	• a major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

CONTENTS OF PARAGRAPHS FOR SPECIFIC MATTERS IN THE AUDITOR'S REPORT

TYPE OF PARAGRAPH	MATTERS INCLUDED
Other Matter	Matters the auditor considers necessary to communicate other than those that are presented or disclosed in the financial statements that, in the auditor's judgement, are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, are not prohibited by law or regulation and are not included in KAMs, such as: • an explanation in the rare circumstances where it is not possible for the auditor to withdraw from the engagement despite a pervasive limitation of scope imposed by management • that another set of financial statements has been prepared by the same company in accordance with another general purpose framework and that the auditor has issued a report on those financial statements • that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties, if the auditor's report is intended to meet the information needs of specific users • If the prior period financial statements were not audited, the fact that the corresponding figures are unaudited.
Material Uncertainty relating to Going Concern	A section in an auditor's report, containing an unmodified opinion, about a material uncertainty relating to **going concern** which the company has adequately disclosed in the financial statements. This section: • draws attention to the note in the financial statements that discloses the relevant events or conditions that give rise to the uncertainty and management's plans to deal with those events or conditions • states that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern but that the auditor's opinion is not modified.
Other information	A section which: • identifies other information contained in the annual report which is not audited, such as the directors' report, the ESG report and any voluntary reporting, such as an integrated report, which management is responsible for. A statement should be included to state that the auditor's opinion does not cover the other information and, accordingly, the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon. • identifies whether that other information was obtained prior to the date of the auditor's report or is expected to be received afterwards. • describes any uncorrected material misstatement in the other information if information included in an annual report is inconsistent with the audited financial statements (for example, if the figures in the Business Review within the directors' report are inconsistent with those disclosed in the financial statements); • when other information has been obtained prior to the date of the auditor's report, either: (i) a statement that the auditor has nothing to report; or (ii) if the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the misstatement.

HOW CAN YOU TELL IF THE AUDITOR'S REPORT IS CLEAN OR NOT?

To determine if an auditor's report is "clean" or whether it has been modified, you need to look at the opinion section at the top of the auditor's report. An unqualified or clean auditor's report will state that in the auditor's opinion the financial statements give a true and fair view:

- of the financial position of the company as at year ended date
- of its financial performance and its cash flows for the year then ended
- in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.[28]
- and have been properly prepared in compliance with the Hong Kong Companies Ordinance.[29]

If the audit opinion is modified it can be either:

- Qualified opinion: a clean opinion is provided "except for" the matter identified.
- Disclaimer: the auditor cannot provide an opinion because the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for that opinion.
- Adverse opinion: because of the significance of the matter, the accompanying financial statements do not give a true and fair view of the financial position of the Company as at 31 December 20XX and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants[28] (See also "Modified auditor's opinions").

Even where there is a clean opinion, it is important to look for and pay attention to the KAMs raised and any Emphasis of Matter, Other Matter or Material Uncertainty relating to Going Concern paragraphs, which can each highlight matters of significance contained in the financial statements.

[28] A company incorporated overseas and listed in Hong Kong can apply IFRS. An issuer which is duly incorporated in the PRC as a joint stock limited company can apply China Accounting Standards for Business Enterprises.

[29] Companies incorporated overseas having a primary listing in Hong Kong and PRC companies listed in Hong Kong are required by the Listing Rules to comply with the disclosure requirements of the Hong Kong Companies Ordinance and subsidiary legislation.

DOES A CLEAN AUDITOR'S REPORT MEAN A CLEAN BILL OF HEALTH FOR THE COMPANY?

Auditor's reports are intended to increase the degree of confidence users have in the information in the financial statements. It is not about the soundness of the business strategies, its future viability or whether it is a safe investment.

An unmodified auditor's opinion means investors or other stakeholders can assess the company based on its financial statements, with more confidence that the information is materially correct and unbiased, than if the report was modified or if the financial statements were unaudited.

The directors of the company are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the company either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

Auditors assess the appropriateness of the **going concern** assumption and the preparation of the financial statements, but this cannot be taken as a conclusion on the future prospects of the company nor does it reflect the business risks which could impact the company's financial performance and outcomes (see "What do auditors do in regard to going concern assumption?").

The directors' report addresses these matters in the Business Review required by Schedule 5 of the Hong Kong Companies Ordinance, which is required to contain information that shareholders would reasonably require to make an informed assessment of the following:

- a fair review of the company's business
- a description of the principal risks and uncertainties facing the company
- particulars of important events affecting the company that have occurred since the end of the financial year.
- an indication of likely future developments in the company's business.
- an analysis using financial key performance indicators.
- a discussion on the company's environmental policies and performance, and the company's compliance with the relevant laws and regulations that have a significant impact on the company.
- an account of the company's key relationships with its employees, customers and suppliers and others that have a significant impact on the company and on which the company's success depends.

However, the above information is not required to be audited.

MODIFIED AUDITOR'S OPINIONS

Modified auditor's opinions are issued when the auditor believes the financial statements contain a **material misstatement**, or when the auditor is unable to obtain enough evidence to form an opinion. Such an opinion should be a red flag for readers, as it indicates that part or all of the financial statements cannot be relied upon. The following table sets out the different types of modified auditor's opinions that may be issued in these situations.

BASIS FOR MODIFIED OPINION

The basis for modified opinion section provides clarification to the reader of the **auditor's report** about why the auditor expressed a modified opinion.

The basis for a qualified opinion due to a misstatement or an adverse opinion describes the matter giving rise to the modification, and the misstatement by either quantifying the financial effects of the misstatement, explaining how disclosures are misstated or by describing the nature of any omitted information and including the omitted disclosures.

The basis for a qualified opinion due to insufficient evidence, or a disclaimer provides the reasons for the auditor's inability to obtain sufficient appropriate audit evidence.

TYPE OF MODIFIED AUDIT OPINION	DESCRIPTION	SITUATIONS WHERE THIS TYPE OF REPORT MAY BE ISSUED	EXAMPLES
Qualified or "except for" opinion	The opinion states the financial statements are in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and have been properly prepared in compliance with the Hong Kong Companies Ordinance so as to give a **true and fair view** of the financial position of the company as at year end and its financial performance for the year then ended, except for the effect of a specific matter or matters.	A qualified opinion is issued when a specific part of the financial statements contains a **material misstatement** or adequate evidence cannot be obtained in a specific, material area, but is not pervasive to the rest of the financial statements.	The auditor has a different view on the valuation of a material asset than that applied by management in the financial statements, but the rest of the financial statements were found to be free of material misstatements.
Disclaimer of opinion	The auditor does not express an opinion on the financial statements because of the significance of the matters described. The auditor is unable to obtain sufficient appropriate audit evidence to provide a basis for an opinion.	A disclaimer of opinion is issued when: • the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive; or • in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.	The company's financial reporting information system was corrupted and key data was lost, so that sufficient appropriate evidence is not available to support all of the account balances and material disclosures in the financial statements.

TYPE OF MODIFIED AUDIT OPINION	DESCRIPTION	SITUATIONS WHERE THIS TYPE OF REPORT MAY BE ISSUED	EXAMPLES
Adverse opinion	The opinion states that the auditor believes the accompanying financial statements do not give a true and fair view of the financial position of the company as at year end and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants .	An adverse opinion is issued when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.	The auditor believes that due to a significant economic downturn, a credit provider's management has inadequately provided for impairment of the company's loan portfolio which represents a very significant proportion of their assets. The auditor believes that the financial assets are overstated, such that the misstatements are both material and pervasive to the financial statements.

THE AUDIT AND REVIEW PROCESS

WHAT DO AUDITORS AND REVIEWERS DO?

The audits and reviews of Hong Kong companies are conducted in accordance with the Hong Kong Standards on Auditing ("HKSAs") and the Hong Kong Standard on Review Engagements 2410 or 2400 respectively,[30] which are issued by the Hong Kong Institute of Certified Public Accountants and comprise a suite of standards for audits of financial statements and certain standards for reviews of half-year financial statements. Auditors are required to comply with the HKSAs when conducting an audit.

These standards closely follow the international auditing standards so that what auditors are required to do is consistent across jurisdictions applying the International Standards on Auditing ("ISAs").

The following diagram illustrates at a very high level what is involved in financial statements audits, and the order in which activities usually take place during the year:

[30] A company incorporated overseas and listed in Hong Kong can apply IFRS. An issuer which is duly incorporated in the PRC as a joint stock limited company can apply China Accounting Standards for Business Enterprises.

WHAT IS A MATERIAL MISSTATEMENT?

Auditors' work is concerned with identifying **material misstatements**, rather than any misstatement in the **financial statements**. Material misstatements are those that are significant enough to affect the decisions made by the users of the financial statements. This can be in terms of the quantitative or qualitative significance of misstatements.

QUANTITATIVE	The quantities or dollar amounts in the financial statements. For example, quantitatively material misstatements could include: • Impairment of assets • Overstating revenue • Missing/not recorded liabilities • Understating expenses
QUALITATIVE	The nature of items in the financial statements. For example, qualitatively material misstatements could include: • Not disclosing certain related party transactions • Not disclosing management's remuneration These disclosures are important in evaluating how the company has been managed, although they may be small quantitatively in comparison to the scale of the company's overall operations.

WHAT DO AUDITORS DO IF THEY FIND NON-COMPLIANCE WITH LAWS AND REGULATIONS?

If an auditor suspects or discovers non-compliance with laws or regulations, other than those which are inconsequential, they must take action and cannot turn a blind eye. Whether the non-compliance is by company staff, management or external parties, auditors must respond in a timely way so that the adverse consequences to stakeholders and the general public are rectified, remediated or mitigated.

The auditor needs to be satisfied that the company has taken appropriate and timely action to address the consequences and deter further non-compliance, and that the company has disclosed the matter to an appropriate authority where required by law or regulation or where necessary in the public interest. If not, auditors are required to follow an escalation process, initially through an appropriate level of management.

If the company's response is inadequate, management is involved or there will be actual or potential substantial harm to stakeholders or the general public, the auditor must take further action. This may warrant disclosing the matter to an appropriate authority and/or withdrawing from the engagement. Disclosure to an appropriate authority is not considered a breach of the duty of confidentiality if the auditor is acting in good faith.

WHAT DO AUDITORS DO WITH RESPECT TO FRAUD?

Auditors consider the possibility that fraudulent activities can result in material misstatement in the financial statements and take this into account in planning and performing their work.

Fraud as defined in the **auditing and assurance standards** is an intentional act by one or more individuals among management, **those charged with governance**, employees or third parties, involving the use of deception to obtain unjust or illegal advantage.

An audit is not an investigation intended to uncover all instances of fraud. However, an auditor is required to treat fraud risks as significant risks and must obtain an understanding of the company's related controls. Therefore, an audit is only likely to detect instances of fraud that result in material misstatement, although there is no guarantee that an audit will detect any material frauds perpetrated against the company due to the nature of fraud.

As fraud is usually coupled with concealment or deception, the risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error. Fraudsters may employ forgery, deliberately fail to record transactions, or make misrepresentations to the auditor, which may be even more difficult to detect when accompanied by collusion. The auditor's ability to detect a material misstatement due to fraud depends on factors such as the skill of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

In addition, frauds which are not material to the financial audit are unlikely to be detected by the external auditor.

WHAT DO AUDITORS DO IN REGARD TO THE GOING CONCERN ASSUMPTION?

The going concern assumption is that a company will continue in business for the foreseeable future. The going concern assumption has a significant impact on how a company's financial statements are presented (see "If the going concern basis doesn't apply" below).

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the company either intend to liquidate the company or to cease operations or have no realistic alternative but to do so.

The auditor performs work to evaluate the appropriateness of management's use of the going concern basis of accounting as part of the audit. The auditor considers a period of at least 12-months from the date of the financial statements (the date of the end of the latest period covered by the financial statements).

If the going concern basis doesn't apply

Companies that are not a going concern, when management intends to liquidate the company or to cease trading, or has no realistic alternative but to do so, need to report on a different basis from companies that are a going concern. For example, assets and liabilities would be recognised at their immediate sale value/ liquidation value rather their value in future use.

The auditor:

- evaluates management's assessment of the company's ability to continue as a going concern, including whether it reflects all relevant information of which the auditor is aware as a result of the audit;
- concludes on the appropriateness of management's use of the going concern basis of accounting;
- concludes on whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern; and
- determines whether the financial statements adequately disclose any material uncertainty.

The going concern assumption involves judgements about events taking place in the future, which are inherently uncertain.

Where there is a material uncertainty in the company's ability to continue as a going concern and this has been disclosed by management in the notes to the financial statements, the auditor includes wording in the auditor's report to direct users to the applicable note disclosure, in a "material uncertainty related to going concern" paragraph.

If the auditor ultimately does not agree with management's assumptions regarding going concern, the result would be a modified opinion (see "The auditor's report" on page 16).

APPENDIX 1 – GLOSSARY

Accounting standards: Mandatory standards applied in preparing financial statements. In Hong Kong, these standards are issued by the Hong Kong Institute of Certified Public Accountants and are formally referred to as "Hong Kong Financial Reporting Standards"[31]. International accounting standards are issued by the International Accounting Standards Board ("IASB").

Assurance: The expression of a conclusion that is intended to increase the confidence of users in subject matter against criteria (see also "What does assurance mean?").

Assurance practitioner: A professional assurance services provider.

Auditor's report: The final report that sets out the auditor's opinion (see also "The auditor's report" on page 16, and an example of independent auditor's report i**n Appendix 2).**

Auditing and assurance standards: Mandatory standards applied by assurance practitioners in audits, reviews and other assurance engagements. In Hong Kong these standards are issued by the Hong Kong Institute of Certified Public Accountants, and internationally by the International Auditing and Assurance Standards Board.

Fair presentation framework: A financial reporting framework that requires compliance with the requirements of the framework and:

(a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

(b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

Financial statements: A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but it can also refer to a single financial statement.

Going concern: An entity that is expected to continue in operation for the foreseeable future, taken to be at least 12-months from the date of the financial statements (The date of the end of the latest period covered by the financial statements) for the purpose of auditor going concern assessments (see also "What do auditors do in regard to the going concern assumption?").

Limited assurance: A level of assurance that is meaningful, but lower than reasonable assurance (see also "What does assurance mean?" Page 6).

Material misstatement: An inaccuracy or omission in the financial statements that is significant enough to affect the decisions made by users.

Reasonable assurance: A high but not absolute level of assurance (see also "What does assurance mean?").

Review report: The final report that sets out the review conclusion (see also "The auditor's report").

Those charged with governance: The person(s) or organisation(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner manager.

True and fair view: Presenting an accurate and unbiased picture of a company's financial performance and position in the financial statements.

[31] A company incorporated overseas and listed in Hong Kong can apply IFRS. An issuer which is duly incorporated in the PRC as a joint stock limited company can apply China Accounting Standards for Business Enterprises.

APPENDIX 2 – EXAMPLE OF INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Who is the report for?

The report is addressed to the members or shareholders of the company

Independent auditor's report to the members of XYZ Holdings (Hong Kong) Limited.

What does the report cover?

This section sets out the basic details of the engagement – the applicable reporting period, name of the company, and what was audited

Opinion

We have audited the financial statements of XYZ Holdings (Hong Kong) Limited (the "Company"), which comprise the statement of financial position as at 31 December 20XX, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

What was the audit outcome?

The auditor sets out their overall finding in the opinion. This is an example of an unmodified or 'clean' audit opinion.

See also "The auditor's report" for information on modified opinions.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 20XX, and of its financial performance and its cash flows for the year then ended in accordance with Hong Kong Financial reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

How did the auditor form their opinion?

The auditor provides important context about the auditor's opinion.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Which matters were significant in the audit?

The auditor outlines the matters most significant in the audit of the financial statements of the current period.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

[Description of each KAM in accordance with HKSA 701 Communicating Key Audit Matters in the Independent Auditor's Report]

What is done on sections of the annual report which are not audited?

The auditor explains the procedures they have conducted with respect to the other information in the annual report.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

What is the Directors' role?

This describes the Directors' responsibilities for the preparation of the financial statements, the internal controls in the company and assessing the company's ability to continue as going concern.

Responsibilities of the directors for the financial statements:

The directors of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors of the Company are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Company's financial reporting process.

What is the Auditor's role?

The auditor sets out their responsibility for auditing the financial statements and provides a brief description of what this means (see also "What do auditors and reviewers do?")

Auditor's responsibilities for the audit of the financial statements:

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the HKICPA's website at: [website address]. This description forms part of our auditor's report.

Who is the Auditor?

The auditor provides their name and firm.

[Auditor's name]

[Name of Firm]

Certified Public Accountants

Hong Kong

[Date of the auditor's report]