

Sample Auditor’s Report on Financial Statements
Prepared in Accordance with the SME-FRS based on HKSA 700 “The
Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”
- effective for auditor’s reports dated on or after 31st December, 2006

Example 1 - Company Incorporated in Hong Kong

INDEPENDENT AUDITOR’S REPORT
TO THE SHAREHOLDERS OF SME SAMPLE LIMITED
(incorporated in Hong Kong with limited liability)

Report on the financial statements

We have audited the financial statements of SME Sample Limited (the “Company”) set out on pages ___ to ___ , which comprise the balance sheet as at 31st December, 2006, and the income statement [*and statement of changes in equity*] for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the financial statements

The directors are responsible for the preparation and presentation of these financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In addition, section 141D of the Hong Kong Companies Ordinance requires that the balance sheet together with the notes thereon should be prepared in accordance with the requirements of the Eleventh Schedule to that Ordinance.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 141D 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 report¹. We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to PN 900 (Revised) “Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard” issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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Continuation - 2 -

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the SME-FRS. In addition, in our opinion the balance sheet together with the notes thereon is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December 2006 according to the best of our information and explanations given to us, and as shown by the books of the Company.

[Emphasis of matters

Without qualifying our opinion, we draw attention to Note X to the financial statements. The Company is the defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages. The Company has filed a counter action, and preliminary hearings and discovery proceedings on both activities are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.

Without qualifying our opinion, we draw attention to Note X to the financial statements which indicates that the Company incurred a net loss of \$ZZZ during the year ended 31st December 2006 and, as of that date, the Company's current liabilities exceeded its total assets by \$XXX. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.]²

Report on other matters under section 141D of the Hong Kong Companies Ordinance

We report that we have obtained all the information and explanations which we have required.

A B & C Co.
Certified Public Accountants (Practising)
Hong Kong, [Date]

Footnote 1 – Auditors 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 with reference to Professional Risk Management Bulletin No. 2 “Auditors’ Duty of Care to Third Parties and The Audit Report”.

Footnote 2 – In certain circumstances, an auditor’s report may be modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial statements which is more fully described in a note to the financial statements. The addition of such an emphasis of matter paragraph does not affect the auditor’s opinion. Such paragraph would preferably be included after the auditor’s opinion paragraph but before the section or any other reporting responsibilities, if any.

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Example 2 - Company Incorporation overseas and reporting in Hong Kong

INDEPENDENT AUDITOR’S REPORT
TO THE SHAREHOLDERS OF SME SAMPLE LIMITED
(incorporated in [country or place] with limited liability)¹

We have audited the financial statements of SME Sample Limited (the “Company”) set out on pages ___ to ___, which comprise the balance sheet as at 31st December, 2006, and the income statement [*and statement of changes in equity*] for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the financial statements

The directors are responsible for the preparation and presentation of these financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with the agreed terms of the engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report². We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to PN 900 (Revised) “Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard” issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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Continuation - 2 -

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements have been properly prepared, in all material respects, in accordance with the SME-FRS.

A B & C Co.
Certified Public Accountants (Practising)
Hong Kong, [Date]

Footnote 1 – In Hong Kong, it is common practice to disclose the place of incorporation of the Company.

Footnote 2 – Auditors 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 with reference to Professional Risk Management Bulletin No. 2 “Auditors’ Duty of Care to Third Parties and The Audit Report”.

Sample Auditor’s Report on Financial Statements
Prepared in Accordance with the SME-FRS based on HKSA 701
“Modification of the Independent Auditor’s Report”
- **effective for auditor’s reports dated on or after 31st December, 2006**

Example 3 - Qualified opinion - disagreement with management

INDEPENDENT AUDITOR’S REPORT
TO THE SHAREHOLDERS OF SME SAMPLE LIMITED
(incorporated in [country or place] with limited liability)¹

Reports on financial statements

We have audited the financial statements of SME Sample Limited (the “Company”) set out on pages ___ to ___ , which comprise the balance sheet as at 31st December, 2006, and the income statement [*and statement of changes in equity*] for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the financial statements

The directors are responsible for the preparation and presentation of these financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

[In addition, section 141D of the Hong Kong Companies Ordinance requires that the balance sheet together with the notes thereon should be prepared in accordance with the requirements of the Eleventh Schedule to that Ordinance]².

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with [*Section 141D of the Hong Kong Companies Ordinance*]² [*the agreed terms of the engagement*], and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report³. We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to PN 900 (Revised) “Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard” issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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Continuation - 2 -

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

Included in debtors shown on the balance sheet is an amount of \$X due from a debtor which has ceased trading. SME Sample Limited has no security for this debt. On the basis that no security has been obtained and no cash has been received on the debt, in our opinion, the Company should make a full provision for impairment of \$X, reducing profit before taxation for the year and net assets at 31st December 2006 by that amount.

Qualified Opinion arising from disagreement about accounting treatment

In our opinion, except for the effect on the financial statements of the matter described in the basis for qualified opinion paragraph, the financial statements have been properly prepared, in all other material respects, in accordance with the SME-FRS. *[In addition, in our opinion, except for the matter mentioned above, the balance sheet together with the notes thereon is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December 2006 according to the best of our information and explanations given to us, and as shown by the books of the Company]².*

Report on other matters under section 141D of the Hong Kong Companies Ordinance

[Except for the matter stated in the basis for qualified opinion paragraph, we report that we have obtained all the information and explanations which we have required]².

A B & C Co.
Certified Public Accountants (Practising)
Hong Kong, [Date]

- Footnote 1– In Hong Kong, it is common practice to disclose the place of incorporation of the Company.
- Footnote 2 – This additional wording is required for companies incorporated in Hong Kong applying section 141D of the Hong Kong Companies Ordinance.
- Footnote 3 – Auditors 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 with reference to Professional Risk Management Bulletin No. 2 “Auditors’ Duty of Care to Third Parties and The Audit Report”.

Sample Auditor’s Report on Financial Statements
Prepared in Accordance with the SME-FRS based on HKSA 701
“Modification of the Independent Auditor’s Report”
- **effective for auditor’s reports dated on or after 31st December, 2006**

Example 4 - Qualified opinion – limitation of the auditor’s work

INDEPENDENT AUDITOR’S REPORT
TO THE SHAREHOLDERS OF SME SAMPLE LIMITED
(incorporated in [country or place] with limited liability)¹

Reports on financial statements

We have audited the financial statements of SME Sample Limited (the “Company”) set out on pages ___ to ___ , which comprise the balance sheet as at 31st December, 2006, and the income statement [*and statement of changes in equity*] for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the financial statements

The directors are responsible for the preparation and presentation of these financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

[In addition, section 141D of the Hong Kong Companies Ordinance requires that the balance sheet together with the notes thereon should be prepared in accordance with the requirements of the Eleventh Schedule to that Ordinance]².

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with [*Section 141D of the Hong Kong Companies Ordinance*]² [*the agreed terms of the engagement*], and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report³. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to PN 900 (Revised) “Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard” issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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Continuation - 2 -

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for qualified opinion

\$X of the Company's recorded turnover comprises cash sales, over which there was no system of internal control on which we could rely for the purposes of our audit. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves that the recorded turnover was free from material misstatements.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to cash sales, the financial statements have been properly prepared, in all other material respects, in accordance with the SME-FRS. *[In addition, in our opinion, except as described in the basis for qualified opinion paragraph, the balance sheet together with the notes thereon is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December 2006 according to the best of our information and explanations given to us, and as shown by the books of the Company]².*

Report on other matters under section 141D of the Hong Kong Companies Ordinance

[Except for the matter stated in the basis for qualified opinion paragraph, we report that we have obtained all the information and explanations which we have required]².

A B & C Co.

Certified Public Accountants (Practising)

Hong Kong, [Date]

- Footnote 1 – In Hong Kong, it is common practice to disclose the place of incorporation of the Company.
- Footnote 2 – This additional wording is required for companies incorporated in Hong Kong applying section 141D of the Hong Kong Companies Ordinance.
- Footnote 3 – Auditors 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 with reference to Professional Risk Management Bulletin No. 2 “Auditors’ Duty of Care to Third Parties and The Audit Report”.

Sample Auditor’s Report on Financial Statements
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Example 5 - Qualified opinion – limitation on auditor’s work

INDEPENDENT AUDITOR’S REPORT
TO THE SHAREHOLDERS OF SME SAMPLE LIMITED
(incorporated in [country or place] with limited liability)¹

Reports on financial statements

We have audited the financial statements of SME Sample Limited (the “Company”) set out on pages ___ to ___ , which comprise the balance sheet as at 31st December, 2006, and the income statement [*and statement of changes in equity*] for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the financial statements

The directors are responsible for the preparation and presentation of these financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

[In addition, section 141D of the Hong Kong Companies Ordinance requires that the balance sheet together with the notes thereon should be prepared in accordance with the requirements of the Eleventh Schedule to that Ordinance]².

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with [*Section 141D of the Hong Kong Companies Ordinance*]² [*the agreed terms of the engagement*], and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report³. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to PN 900 (Revised) “Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard” issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matter disclosed in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

to be continued.....

Basis for disclaimer of opinion

We were initially appointed auditors on *[date]* which was subsequent to the end of the Company's financial year. In consequence we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories and work in progress, appearing in the balance sheet at \$X. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the existence of inventories and work in progress. Accordingly, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Any adjustment to the figure may have a consequential significant effect on the profit *[loss]* for the year and net assets at 31st December 2006.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the financial statements as to whether they have been properly prepared, in all material respects, in accordance with the SME-FRS. *[In addition, we also do not express an opinion on the balance sheet together with the notes thereon as to whether it is properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December 2006 according to the best of our information and explanations given to us, and as shown by the books of the Company]².*

Report on other matters under section 141D of the Hong Kong Companies Ordinance

[Except for the matter stated in the basis for disclaimer of opinion paragraph, we report that we have obtained all the information and explanations which we have required]².

A B & C Co.
Certified Public Accountants (Practising)
Hong Kong, [Date]

Footnote 1 – In Hong Kong, it is common practice to disclose the place of incorporation of the Company.

Footnote 2 – This additional wording is required for companies incorporated in Hong Kong applying section 141D of the Hong Kong Companies Ordinance.

Footnote 3 – Auditors 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 with reference to Professional Risk Management Bulletin No. 2 “Auditors’ Duty of Care to Third Parties and The Audit Report”.

Sample Auditor’s Report on Financial Statements
Prepared in Accordance with the SME-FRS based on HKSA 701
“Modification of the Independent Auditor’s Report”
- **effective for auditor’s reports dated on or after 31st December, 2006**

Example 6 – Adverse opinion – disagreement with management

INDEPENDENT AUDITOR’S REPORT
TO THE SHAREHOLDERS OF SME SAMPLE LIMITED
(incorporated in [country or place] with limited liability)¹

Reports on financial statements

We have audited the financial statements of SME Sample Limited (the “Company”) set out on pages ___ to ___ , which comprise the balance sheet as at 31st December, 2006, and the income statement [*and statement of changes in equity*] for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors’ responsibility for the financial statements

The directors are responsible for the preparation and presentation of these financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

[In addition, section 141D of the Hong Kong Companies Ordinance requires that the balance sheet together with the notes thereon should be prepared in accordance with the requirements of the Eleventh Schedule to that Ordinance]².

Auditor’s responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with [*Section 141D of the Hong Kong Companies Ordinance*]² [*the agreed terms of the engagement*], and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report³. We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to PN 900 (Revised) “Audit of Financial Statements Prepared in Accordance with the Small and Medium-sized Entity Financial Reporting Standard” issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

to be continued.....

Continuation - 2 -

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for adverse opinion

As more fully explained in note ___ to the financial statements, losses expected to arise on certain long-term contracts currently in progress have not been recognised as expenses, as the directors consider that such losses should be off-set against amounts recoverable on other long-term contracts. In our opinion, the expected losses on individual contracts should be recognised as expenses immediately as required by Section 8 of SME-FRS. If losses had been so recognised the effect would have been to *[reduce the profit/increase the loss]* before taxation for the year and reduce the gross amounts due from customers at 31st December 2006 by \$X.

Adverse opinion

In our opinion, because of the significance of effects of the matters described in the basis for adverse opinion paragraph, the financial statements have not been properly prepared, in all material respects, in accordance with the SME-FRS. *[In addition, in our opinion the balance sheet together with the notes thereon is not properly drawn up so as to exhibit a true and correct view of the state of the Company's affairs as at 31st December 200X according to the best of our information and explanations given to us, and as shown by the books of the Company.]*²

Report on other matters under section 141D of the Hong Kong Companies Ordinance

*[We report that we have not obtained all the information and explanations which we have required]*².

A B & C Co.
Certified Public Accountants (Practising)
Hong Kong, [Date]

Footnote 1 – In Hong Kong, it is common practice to disclose the place of incorporation of the Company.

Footnote 2 – This additional wording is required for companies incorporated in Hong Kong applying section 141D of the Hong Kong Companies Ordinance.

Footnote 3 – Auditors 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 with reference to Professional Risk Management Bulletin No. 2 “Auditors’ Duty of Care to Third Parties and The Audit Report”.

