

Press Release
11 July 2012

Seventh investigation completed in 2012

(11 July 2012, Hong Kong) The Financial Reporting Council (the "FRC") completed an investigation in relation to the audits of the consolidated financial statements of a listed entity for the years ended 31 December 2007, 2008 and 2009 (the "Relevant Financial Statements").

The FRC directed the Audit Investigation Board (the "AIB") to conduct this investigation on 6 October 2011. The FRC adopted the investigation report prepared by the AIB which summarizes the findings of the investigation on 5 July 2012.

The AIB is of the view that the listed entity should have measured its share options granted to its employees at fair value on the grant date and should have determined the fair value by applying an option pricing model.

The AIB noted that the evaluation of the fair value of the share options performed by the auditor did not take into account all factors set out in the relevant financial reporting standard. The AIB considers that the auditor did not obtain sufficient appropriate audit evidence to support its conclusion that the fair value of the share options was measured in accordance with the relevant financial reporting standard. The AIB considers that the non-compliance with the relevant financial reporting requirement would have a significant impact on the Relevant Financial Statements and the auditor should have modified its reports in this respect.

The FRC would like to remind auditors that they should maintain professional knowledge and skills at the level required to ensure that the audit is properly performed. In evaluating the appropriateness of fair value measurement of financial instruments, it is essential that auditors should have a good understanding of the requirements of the applicable financial reporting framework and the features of the instruments, as well as the valuation method.

The investigation report has been referred to the Hong Kong Institute of Certified Public Accountants to determine if any disciplinary actions are warranted.

The AIB is chaired by the Chief Executive Officer and its members are full-time staff of the FRC.

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Note to editors

About the FRC

The FRC is a statutory body established in December 2006 under the Financial Reporting Council Ordinance. The FRC is entrusted with the statutory responsibilities to conduct independent investigations into possible auditing or reporting irregularities in relation to listed entities and to enquire into possible non-compliance with accounting requirements on the part of listed entities. The FRC has 11 members with a variety of professional backgrounds and the majority of whom, including the Chairman, are lay persons. For more information, please visit www.frc.org.hk.