

Press Release
28 March 2012

Fifth investigation completed in 2012

(28 March 2012, Hong Kong) The Financial Reporting Council (the "FRC") completed an investigation in relation to the audit of the consolidated financial statements of a listed entity for the year ended 31 December 2007 (the "Relevant Financial Statements").

The FRC directed the Audit Investigation Board (the "AIB") to conduct this investigation on 19 November 2010. The FRC adopted the investigation report prepared by the AIB which summarizes the findings of the investigation on 23 March 2012.

The AIB is of the view that the listed entity should have measured the intangible asset acquired in the acquisition of a subsidiary at its fair value at the acquisition date, and used the published price of its shares at the date of exchange to determine the fair value of the consideration shares issued for the acquisition. The range of possible outcomes with different probabilities should have entered into the measurement of the asset's fair value, rather than demonstrates an inability to measure fair value reliably.

The AIB considers that the above issues of non-compliance would have a significant impact on the Relevant Financial Statements and the auditor should have modified its report on the Relevant Financial Statements in these respects.

The AIB noted certain audit documentation issues in relation to the audit of the Relevant Financial Statements. The auditor did not properly document in the audit working papers how it addressed the inconsistency when the information identified during the audit was contradictory to its final conclusion. The AIB also found that there was no audit documentation on how it resolved the difference of opinions with other professionals it had consulted.

The FRC would like to remind auditors that if they have identified information that contradicts or is inconsistent with their final conclusion regarding a significant matter, they are required to document how they address the contradiction or inconsistency in forming the final conclusion. The engagement partner should also ensure that any agreed conclusions resulting from the consultations are properly implemented and documented.

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.