

Press Release  
8 March 2012

### Third investigation completed in 2012

(8 March 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 March 2008 and 2009 (the "Relevant Financial Statements").

The FRC directed the Audit Investigation Board (the "AIB") to conduct this investigation on 1 September 2011. The FRC adopted the investigation report prepared by the AIB which summarizes the findings of the investigation on 1 March 2012.

Based on the published information of the listed entity and the Relevant Financial Statements, the AIB is of the view that the listed entity should have recognized, at the dates of acquisition of businesses, deferred tax liabilities on the fair value gains on intangible assets arising from the acquisitions (the "Fair Value Gains") at the applicable income tax rates.

The AIB considers that the amount of the deferred tax liabilities in respect of the Fair Value Gains, which should be recognized separately from the intangible assets acquired, is material to the Relevant Financial Statements. Therefore, the AIB considers that the auditors' reports on the Relevant Financial Statements should have been modified in this respect.

In addition, the AIB considers that the auditors did not prepare audit documentation sufficiently detailed to enable an experienced auditor to understand their conclusion on the assessment of the deferred tax liabilities on the Fair Value Gains in the audit working papers.

The FRC would like to remind auditors that they are required to prepare sufficiently detailed audit documentation to support their audit opinion so that an experienced auditor with no previous connection with the audit would be able to understand the nature, timing, and extent of the audit procedures performed and the conclusion reached.

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](http://www.frc.org.hk).