

Press Release

First investigation completed in 2013

(14 March 2013, 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 2008 and 31 December 2009 (the “2008 Financial Statements” and the “2009 Financial Statements”).

The FRC directed the Audit Investigation Board (the “AIB”) to conduct this investigation on 23 March 2012 following the receipt of a complaint. The FRC adopted the investigation report prepared by the AIB on 7 March 2013, which summarizes the findings of the investigation.

The AIB was of the view that a significant decline in the fair value of an investment in an equity instrument below its cost was objective evidence of impairment and was sufficient to require the recognition of an impairment loss. The AIB considered that if published price quotation in an active market existed, it was the best evidence of the fair value of the equity instrument and adopting other valuation techniques were not appropriate. Accordingly, the cumulative decline in the fair value of the listed entity’s available-for-sale financial assets should have been removed from equity and recognized in profit or loss in the 2008 Financial Statements. The AIB considered that non-compliance with the accounting requirement would have a material impact on the 2008 Financial Statements and the auditor of the listed entity should have modified its report in this respect.

The AIB was also of the view that the auditor did not make a critical assessment, with a questioning mind, of the validity and appropriateness of the listed entity using other valuation for the impairment assessment of the available-for-sale financial assets. The AIB considered that the auditor did not properly perform the audit of the 2008 Financial Statements with an attitude of professional skepticism recognizing that circumstances might exist that caused the 2008 Financial Statements to be materially misstated.

The AIB noted from the 2009 Financial Statements that certain available-for-sale financial assets were partially disposed of during the year ended 31 December 2009. As the cumulative losses of the available-for-sale financial assets at 31 December 2008, which should otherwise be removed from equity and recognized in profit or loss in the 2008 Financial Statements, were included in the calculation of the net loss on disposal of such financial assets, as a consequence, it appears to the AIB that the net loss on disposal of the available-for-sale financial assets in the 2009 Financial Statements was materially misstated.

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.