

Press Release
5 February 2016

Completed investigation

On 21 January 2016, the FRC adopted the investigation report on the audits of the consolidated financial statements of a listed entity for the years ended 30 June 2011 (**the 2011 Financial Statements**) (**the 2011 Audit**) and 30 June 2012 (**the 2012 Financial Statements**) (**the 2012 Audit**).

The Audit Investigation Board (**the AIB**) found that the auditor failed or neglected to observe, maintain or otherwise apply certain professional standards in (i) the 2011 Audit relating to the acquisition of subsidiaries, the impairment assessment of patents and the related goodwill, and the calculation of loss per share; and (ii) the 2012 Audit relating to the re-measurement of the contingent consideration and the impairment assessment of operating rights. The investigation report has been referred to the Hong Kong Institute of Certified Public Accountants (**the HKICPA**) to determine if any disciplinary actions are warranted.

On 11 September 2014, the FRC directed the AIB to conduct an investigation into the 2011 Audit and the 2012 Audit.

As a result of the investigation, the AIB found the following auditing irregularities:

The 2011 Audit

(a) *Acquisition of subsidiaries*

The auditor failed to exercise sufficient professional skepticism in accordance with paragraph 16 of Hong Kong Standard on Auditing (**HKSA**) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing* and did not perform or adequately perform procedures to obtain sufficient appropriate audit evidence in accordance with paragraphs 6 and 8 of **HKSA** 500 *Audit Evidence* and paragraphs 17 and 18 of **HKSA** 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* in respect of the measurement of the contingent considerations and the recognition and measurement of assets acquired and liabilities assumed in the acquisitions.

The auditor failed to obtain sufficient appropriate evidence to support the unmodified audit opinion on the 2011 Financial Statements in accordance with paragraphs 10 to 13 of HKSA 700 *Forming an Opinion and Reporting on Financial Statements*.

(b) *Impairment assessment of patents and the related goodwill*

The auditor did not perform the necessary audit procedures to obtain sufficient appropriate audit evidence to support (i) that the impairment assessments of patents and the related goodwill were performed in accordance with Hong Kong Accounting Standard 36 *Impairment of Assets* according to paragraph 16 of HKSA 200, paragraphs 6 and 8 of HKSA 500, and paragraphs 17 and 18 of HKSA 540; and (ii) the unmodified auditor opinion on the 2011 Financial Statements according to paragraphs 10 to 13 of HKSA 700.

(c) *Calculation of loss per share*

The auditor failed to perform audit procedures to ensure the accuracy of the calculation of the weighted average number of ordinary shares outstanding and the loss per share presented in the 2011 Financial Statements in accordance with paragraph 9 of HKSA 500.

The 2012 Audit

(d) *Re-measurement of the contingent consideration*

The auditor failed to obtain sufficient appropriate evidence to support (i) that the contingent consideration payable was carried at fair value as at 30 June 2012 according to paragraph 6 of HKSA 500; and (ii) the unmodified opinion on the 2012 Financial Statements according to paragraphs 10 to 13 of HKSA 700.

(e) *Impairment assessment of operating rights*

The auditor had not (i) exercised sufficient professional skepticism in considering the market condition and plantation climate in the valuation of operating rights according to paragraph 16 of HKSA 200; and (ii) performed the necessary audit procedures to obtain sufficient appropriate audit evidence regarding the accounting estimates for impairment assessment of operating rights according to paragraphs 6 and 8 of HKSA 500 and paragraphs 17 and 18 of HKSA 540.

The AIB found that the engagement quality control reviewer did not fully comply with paragraphs 20 and 21 of HKSA 220 *Quality Control for Audits of Historical Financial Information* in performing the engagement quality control reviews on the 2011 Audit and the 2012 Audit because he should have identified the above audit deficiencies during his reviews.

The AIB also found that the engagement partner and the engagement quality control reviewer did not fully comply with section 130.1 of the Code of Ethics for Professional Accountants as they failed to act diligently in accordance with applicable technical and professional standards when providing professional services.

On 21 January 2016, the FRC adopted the investigation report prepared by the AIB, which summarized the findings of the investigation. The investigation report has been referred to the HKICPA to determine if any disciplinary actions are warranted. Names of the relevant parties are withheld pending the conclusion of such disciplinary proceedings, if any.

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.