

**Press Release**

**Second investigation completed in 2013**

(14 March 2013, 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 March 2010 (the “Relevant Financial Statements”).

On 5 July 2012, the FRC directed the Audit Investigation Board (the “AIB”) to conduct the investigation. On 7 March 2013, the FRC adopted the investigation report prepared by the AIB which summarizes the findings of the investigation.

The listed entity issued its shares as consideration for an acquisition of a subsidiary, the fair value of which was measured at the issue price rather than the published price at the date of the acquisition. The listed entity considered that the published price of its shares at the date of the acquisition was not a suitable and reliable indicator of their fair value due to the thinness of the market of the listed entity’s shares. The auditor of the listed entity performed audit procedures on the information provided by the listed entity and concurred with the views of the listed entity.

Based on the AIB’s review of the trading data of the listed entity’s shares over a period preceding the date of the acquisition, the listed entity’s shares were traded on a daily basis, with no evidence suggesting that those transactions were not entered into on an arm’s length basis. Based on the AIB’s further review of the average daily trading volume of the Hong Kong stock market during the same period, the AIB considered that there was no evidence suggesting that the market of the listed entity’s shares was thin at the date of the acquisition. The AIB considered that the published price of the listed entity’s shares did reflect their fair value at the date of the acquisition and should be used to measure the fair value of the consideration shares.

The AIB considered that the above issue of non-compliance was material to the Relevant Financial Statements and the auditor should have modified its report in this respect.

The FRC would like to remind auditors that they should obtain sufficient appropriate audit evidence to support the fair value measurement of consideration shares issued for business combination transactions.

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).