

# **INVESTIGATION REPORT**

**[Case number]**

**on**

**[Reporting Accountant]**

**in respect of the**

**Preparation of the Accountants' Report issued**

**by or on behalf of**

**[Listco]**

**for the years ended [three financial year-end dates]**

**Audit Investigation Board**

**[date]**

**This report was adopted by the Financial Reporting Council [information omitted] in accordance with section 35(3) of the Financial Reporting Council Ordinance (Cap. 588).**

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The enclosures are not published because they may contain non-public third party information.

### **Notes concerning this report**

This report relates to the possible occurrence of a reporting irregularity in respect of the preparation of a specified report required for a listing document issued by or on behalf of a listed entity under the Financial Reporting Council Ordinance (Cap. 588).

Any references in this report to breaches of any law, regulation, standards of accounting, auditing and assurance, practice or principle, or Main Board Listing Rules should be understood in the context of that Ordinance only and pursuant to which this report was prepared.

This report, whenever it relates to the private rights of third parties between themselves, makes and implies no comment as to the rights and obligations, and the merits of the conduct, of these third parties as between themselves.

## Abbreviations

Accountants' Report	Accountants' report on the Financial Information dated [date of Accountants' Report] prepared by [Reporting Accountant] for inclusion in the Listing Document (Annex 1)
AG 3.340	Statement 3.340 Auditing Guideline "Prospectuses and the reporting accountant"
AIB	Audit Investigation Board
[Listco]	[Listco] (Stock code: [stock code])
[Reporting Accountant]	[Reporting Accountant]
Council	Financial Reporting Council
Financial Information	Financial information of the Group for each of the three [financial year-end dates]
FRC Ordinance	Financial Reporting Council Ordinance (Cap. 588)
[Financial reporting standard relevant to the presentation of financial statements]	[Financial reporting standard relevant to the presentation of financial statements]
[Financial reporting standard relevant to earnings per share]	[Financial reporting standard relevant to earnings per share]
[Applicable financial reporting standards]	[Applicable financial reporting standards]
Listing Document	Listing document of [Listco] dated [date of Listing Document] in connection with the listing of the shares of [Listco] on the Main Board of

the Stock Exchange [information omitted]

[Legal  
Representative]

[Legal Representative], legal representative acting on behalf of [Listco]

Relevant Period

Each of the three years ended [three financial year-end dates]

The Group

[Listco] and its subsidiaries

The Stock Exchange

The Stock Exchange of Hong Kong Limited

Underlying Financial  
Statements

Consolidated financial statements of the Group for the Relevant Period

## **Executive Summary**

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### **Introduction**

This report is prepared pursuant to section 35 of the FRC Ordinance and contains the findings of the investigation conducted by the AIB pursuant to section 23(3)(b) of the FRC Ordinance in respect of the preparation of the Accountants' Report by [Reporting Accountant]. The investigation focused on whether there is any reporting irregularity in relation to the determination of earnings per share in the Accountants' Report.

### **Background information**

[Listco] is incorporated in [Country] and was listed on the Main Board of the Stock Exchange on [date of Listing]. The Listing Document was authorized for issuance on [date of Listing Document].

[Reporting Accountant] was engaged to prepare the Accountants' Report. The Accountants' Report stated that the Financial Information was prepared in accordance with [applicable financial reporting standards]. [Reporting Accountant] opined that the Financial Information, for the purpose of the Accountants' Report, gave a true and fair view of the state of affairs of the Group and of [Listco] as at [three financial year-end dates] and of the consolidated results and cash flows of the Group for the Relevant Period. The Accountants' Report is dated [date of Listing Document].

### **Events leading to investigation**

On 7 September 2010, the Council received a letter in relation to a number of issues in connection with the listing of the shares of [Listco] on the Stock Exchange. In particular, the Council was requested to review the determination of earnings per share in the Listing Document to consider if they were in accordance with applicable professional standards.

Having considered all the information laid before it, the Council, on 27 September 2010, decided to initiate an investigation (reference [case number]) and directed the AIB, in accordance with section 23(3)(b) of the FRC Ordinance, to investigate the possible reporting irregularity and the question whether or not there is such an irregularity in respect of the preparation of the Accountants' Report.

## Scope of investigation

The investigation was to collect information and evidence regarding the question whether or not there is a reporting irregularity in relation to the determination of earnings per share in respect of the preparation of the Accountants' Report.

## Relevant financial reporting, auditing and assurance requirements

The financial reporting, auditing and assurance requirements applicable at the time of the preparation of the Accountants' Report and relevant to the findings in this report are set out below:

[Financial reporting standard relevant to the presentation of financial statements]

*Financial reporting standard relevant to the presentation of financial statements*

[Financial reporting standard relevant to earnings per share]

*Financial reporting standard relevant to earnings per share*

AG 3.340

*Prospectuses and the reporting accountant*

## Views of the AIB

A share split occurred after the balance sheet date of [latest financial year-end date] but before the issuance of the Accountants' Report on [date of Accountants' Report]. The AIB notes that the calculation of basic and diluted earnings per share presented on the face of the consolidated income statements of [Listco] for the Relevant Period in the Accountants' Report was not based on the number of shares issued after the share split.

The AIB is of the view that the basic and diluted earnings per share presented on the face of the consolidated income statements of [Listco] for the Relevant Period in the Accountants' Report (at [page number]) were not calculated in accordance with paragraphs 3 and 64 of [financial reporting standard relevant to earnings per share] and not correctly presented in accordance with paragraph 66 of [financial reporting standard relevant to earnings per share].

### **Comments on the investigation report from [Reporting Accountant]**

The draft investigation report was sent to [Reporting Accountant] for comments on 10 December 2010. [Reporting Accountant] met the representatives of the AIB on 5 January 2011 to provide its comments on the draft investigation report. [Reporting Accountant] provided its overall comments on the draft investigation report in its letter dated 7 January 2011. The comment letter is attached as Annex 3 to this investigation report.

### **Comments on the investigation report from [Listco]**

The draft investigation report was sent to [Listco] for comments on 10 December 2010. [Legal Representative], acting on behalf of [Listco], provided its comments on the draft investigation report on 10 January 2011. The comment letter is attached as Annex 4 to this investigation report.

### **AIB's response to comments on the investigation report from [Reporting Accountant] and [Listco]**

The AIB considered the comments from [Reporting Accountant] and [Listco] and maintains its views that the calculation and presentation of the basic and diluted earnings per share on the face of the consolidated income statements of [Listco] for the Relevant Period in the Accountants' Report are not prepared in accordance with paragraphs 3, 64 and 66 of [financial reporting standard relevant to earnings per share].

## Section 1 Events leading to investigation

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### 1.1 Background information

1.1.1 [Listco] is incorporated in [Country] and its shares were listed on the Main Board of the Stock Exchange on [date of Listing] [information omitted]. The Listing Document was authorized for issuance on [date of Listing Document]. The Accountants' Report (Annex I) constitutes Appendix I of the Listing Document dated [date of Listing Document].

1.1.2 The principal activities of the Group as set out in the Accountants' Report ([page number]) were [description of principal activities].

1.1.3 [Reporting Accountant] was engaged to prepare the Accountants' Report. It was stated in the Accountants' Report ([page number]) that *"We have examined the Underlying Financial Statements for the Relevant Period used in preparing the Financial Information, and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the reporting accountant" as recommended by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). ...*

*It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you."*

1.1.4 It was stated in note [number] to "Section B – Notes to the Financial Information" of the Accountants' Report ([page number]) that the Financial Information was prepared in accordance with all applicable [financial reporting standards].

1.1.5 [Reporting Accountant] opined that on the basis of preparation set out in note [number] to Section B of the Accountants' Report, the Financial Information gave, for the purpose of the Accountants' Report, a true and fair view of the state of affairs of the Group and of [Listco] as at [three financial year-end dates] and of the consolidated results and cash flows of the Group for the Relevant Period ([page number] of the Accountants' Report).

1.1.6 The Accountants' Report is dated [date of Accountants' Report].



## **1.2 Initiation of investigation**

- 1.2.1 On 7 September 2010, the Council received a letter in relation to a number of issues in connection with the listing of the shares of [Listco] on the Stock Exchange. In particular, the Council was requested to review the determination of earnings per share in the Listing Document to consider if they were in accordance with applicable professional standards.
- 1.2.2 Having considered all the information laid before it, the Council, on 27 September 2010, decided to initiate an investigation (reference [case number]) and directed the AIB, in accordance with section 23(3)(b) of the FRC Ordinance, to investigate the possible reporting irregularity and the question whether or not there is such an irregularity in respect of the calculation of basic and diluted earnings per share included in the Accountants' Report.
- 1.2.3 Subsequently on or about 28 September 2010, the Council received another letter regarding [Listco]. One of the issues raised by the complainant is the same as the issue under review in this investigation.
- 1.2.4 The AIB comprises the following members:
- (a) Dr. P.M. Kam, the Chairman;
  - (b) Ms. Velma Cheung;
  - (c) Ms. Anna Lau;
  - (d) Ms. Florence Wong; and
  - (e) Ms. Joyce Woo.

## Section 2 Process of investigation

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### 2.1 Requirement issued

2.1.1 For the purpose of the investigation, the AIB issued a requirement under section 28 of the FRC Ordinance to [Reporting Accountant] on 28 September 2010 for the provision of response to written questions.

### 2.2 Standards relevant to the investigation

2.2.1 The AIB referred to the following financial reporting, auditing and assurance requirements applicable at the time of the preparation of the Accountants' Report during the investigation:

[Financial reporting standard relevant to the presentation of financial statements] *[Financial reporting standard relevant to the presentation of financial statements]*

[Financial reporting standard relevant to earnings per share] *[Financial reporting standard relevant to earnings per share]*

AG 3.340 *Prospectuses and the reporting accountant*

### 2.3 The investigation report

2.3.1 This report is prepared pursuant to section 35 of the FRC Ordinance and contains the findings of the investigation conducted by the AIB pursuant to section 23(3)(b) of the FRC Ordinance in respect of the preparation of the Accountants' Report by [Reporting Accountant].

2.3.2 The relevant sections of the draft investigation report were sent to [Reporting Accountant] and [Listco] for comments on 10 December 2010.

- 2.3.3 On 5 January 2011, [Reporting Accountant] met the representatives of the AIB and provided its comments on the draft investigation report. The AIB subsequently received a letter from [Reporting Accountant] dated 7 January 2011 (Annex 3) setting out its overall comments on the draft investigation report which are included in section 3 of this investigation report.
- 2.3.4 On 10 January 2011, [Legal Representative], acting on behalf of [Listco], provided comments (Annex 4) which are included in section 3 of this investigation report.
- 2.3.5 This investigation report of the AIB was adopted by the Council [information omitted] pursuant to section 35(3) of the FRC Ordinance.

### Section 3 Detailed findings on Determination of Earnings per Share

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#### 3.1 Findings of fact

##### 3.1.1 Background information

3.1.1.1 The basic and diluted earnings per share amounts presented on the face of the consolidated income statements for the Relevant Period in the Accountants' Report ([page number]) are extracted below:

	<u>“Year ended [Date and Month]</u>		
	<u>[Three financial years]</u>		
	<i>Note</i> [currency]	[currency]	[currency]
<i>Earnings per share</i> [number]			
- Basic	<u>[figure]</u>	<u>[figure]</u>	<u>[figure]</u>
- Diluted	<u>[figure]</u>	<u>[figure]</u>	<u>[figure]</u>

3.1.1.2 It was stated in note [number] to “Section B – Notes to the Financial Information” of the Accountants' Report ([page number]) that the calculation of basic and diluted earnings per share for the Relevant Period was based on, *inter alia*, the weighted average number of ordinary shares outstanding during the respective periods.

3.1.1.3 It was mentioned in “Section C - Subsequent Events” of the Accountants' Report ([page number]) that *[information in relation the share split occurred after the balance sheet date of latest financial year-end date but before the issuance date of the Accountants' Report and the effect of the share split on the earnings per share for the relevant period omitted]*.

### 3.1.2 ***Information and explanations provided by [Reporting Accountant]***

3.1.2.1 On 28 September 2010, the AIB requested [Reporting Accountant] to explain how the calculation of basic and diluted earnings per share presented on the face of the consolidated income statements for the Relevant Period in the Accountants' Report complied with paragraph 64 of [financial reporting standard relevant to earnings per share].

3.1.2.2 On 13 October 2010, [Reporting Accountant] replied in a letter (Annex 2) that:

*“1. For the purposes of the Accountants' Report, we examined the audited consolidated financial statements of the Company for the Relevant Period (the “Underlying Financial Statements”) in accordance with the relevant auditing and assurance statement issued by the Hong Kong Institute of Certified Public Accountants: Auditing Guideline 3.340 (“AG 3.340”) “Prospectuses and the Reporting Accountant”.*

2. *Paragraph 39 of AG 3.340 states:*

*The financial information included in the accountant's report should be based on the audited financial statements for the periods reported on. However, in order to ensure that the financial information is presented on a consistent and comparable basis the reporting accountant may need to make adjustments to the figures previously reported in the financial statements (underlined emphasis added).*

3. *Paragraph 43 of AG 3.340 states:*

*Adjustments to previously reported figures should only be made:*

*a. to ensure that the financial information for all the years reported on is stated on a consistent basis; or*

*b. to ensure that the financial information is in all other respects properly comparable, for example, by correcting any fundamental accounting errors in the financial statements of the periods reported on (underlined emphasis added).*

4. *Paragraph 44 of AG 3.340 states:*

*To enable the financial information to be stated on a consistent basis two different types of adjustment may be required:*

- a. *Adjustments should be made to ensure that, wherever practicable, all the financial information in the report is stated on the basis of the current accounting policies.*
  - b. *If there has been a change in the group structure in the period reported on (for example, the acquisition or disposal of a subsidiary company or business, or a reorganisation of the group) it may sometimes be appropriate to make adjustments so that the effects of the change on the results of the group and its state of affairs do not distort the financial information (underlined emphasis added).*
5. *We noted that the Underlying Financial Statements did not contain any corrections nor any qualified audit opinion, and there was no change in group structure in the Relevant Period and up to date of the Accountants' Report.*
6. *As disclosed in the Underlying Financial Statements, the adoption of new or revised [applicable financial reporting standards] that were effective in the Relevant Period did not result in substantial changes in the Group's accounting policies.*
7. *In view of points 5 and 6 above, and based on our examination work, adjustments to the Underlying Financial Statements were not considered necessary for the purposes of the Accountants' Report and AG 3.340.*
8. *We are of the view that the share split on [date of share split] did not constitute a situation leading to adjustments to the Underlying Financial Statements under AG 3.340, but an event between the dates of the last financial statements and publication of the listing document that required disclosures in the Accountants' Report. Accordingly, details of the share split as well as its impact on the earning[s] per share calculations for the Relevant Period were properly disclosed in Section C "Subsequent Events" in the Accountants' Report.*
9. *We note that the Financial Information, which comprises consolidated and company balance sheets, the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flows statements for the Relevant Period, and a summary of significant accounting policies and other explanatory notes, set out in the Accountants' Report was compiled from the Underlying Financial Statements. As the Underlying Financial Statements were prepared in accordance with [applicable financial reporting standards], the Financial Information was also prepared in accordance with the [applicable financial reporting standards]. It is in this context that Note [number]: "The Financial Information has been prepared in accordance with applicable [financial reporting standards]....." in Section B of the Accountants' Report was made.*

10. We note that paragraph 64 of [financial reporting standard relevant to earnings per share] which is cited in your letter and [financial reporting standard relevant to earnings per share] as a whole are intended to apply to regular periodic financial reporting in the form of general purpose financial statements and it is in this context in which they have to be read. The appropriate guidance for the preparation of a special purpose Accountants' Report issued in accordance with the Companies Ordinance and the Listing Rules of The Stock Exchange of Hong Kong Ltd. is AG 3.340. As set out above, we have acted in compliance with the requirements of AG 3.340."

## 3.2 Relevant financial reporting, auditing and assurance requirements

3.2.1 Paragraph 3 of [financial reporting standard relevant to earnings per share] states that "An entity that discloses earnings per share shall calculate and disclose earnings per share in accordance with this Standard."

3.2.2 Paragraph 64 of [financial reporting standard relevant to earnings per share] states that "If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the balance sheet date but before the financial statements are authorized for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively."

3.2.3 Paragraph 66 of [financial reporting standard relevant to earnings per share] states that "An entity shall present on the face of the income statement basic and diluted earnings per share for profit or loss from continuing operations attributable to the ordinary equity holders of the parent entity and for profit or loss attributable to the ordinary equity holders of the parent entity for the period for each class of ordinary shares that has a different right to share in profit for the period. An entity shall present basic and diluted earnings per share with equal prominence for all periods presented."

3.2.4 Paragraph 3 of [financial reporting standard relevant to the presentation of financial statements] states that "General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus..."(underline added)

3.2.5 Paragraph 26 of AG 3.340 states that *“The reporting accountant should apply the procedures described in Statement 3.252 “Events after the balance sheet date” [the equivalent standard applicable to the Accountants’ Report is Hong Kong Standard on Auditing 560 Subsequent Events] to ensure that any significant events between the dates of the latest audited financial statements and publication of the prospectus are identified and correctly reflected in the financial information reported on ...”*

### **3.3 Views of the AIB**

3.3.1 The share split occurred after the balance sheet date of [latest financial year-end date] but before the issue date of the Accountants’ Report on [date of Accountants’ Report].

3.3.2 It was noted that the calculation of basic and diluted earnings per share presented on the face of the consolidated income statements of [Listco] for the Relevant Period in the Accountants’ Report was not based on the number of shares after the share split as required under paragraph 64 of [financial reporting standard relevant to earnings per share]. The AIB is of the view that the basic and diluted earnings per share were not correctly presented on the face of the consolidated income statements as required under paragraph 66 of [financial reporting standard relevant to earnings per share]. If the requirements of [financial reporting standard relevant to earnings per share] were followed, the basic earnings per share for the years ended [three financial year-end dates] presented on the face of the consolidated income statements would be [basic EPS figures after share split for the three financial years] (Paragraph 3.1.1.3) instead of [basic EPS figure before share split for the three financial years] (Paragraph 3.1.1.1) respectively. The diluted earnings per share for the years ended [three financial year-end dates] would be [diluted EPS figure after share split for the three financial years] (Paragraph 3.1.1.3) instead of [diluted EPS figure before share split for the three financial years] respectively (Paragraph 3.1.1.1). **The AIB considers that the mere disclosure in “Section C – Subsequent Events” of the Accountants’ Report could not rectify the non-compliance with the requirements of [financial reporting standard relevant to earnings per share].**

3.3.3 The AIB believes that following the requirements of paragraph 26 of AG 3.340, [Reporting Accountant] should have made the adjustment to the calculation of basic and diluted earnings per share as a result of the share split to ensure all the financial information in the Accountants’ Report was stated in accordance with the applicable [financial reporting standards].

3.3.4 It appears to the AIB that the reason put forward by [Reporting Accountant] that [financial reporting standard relevant to earnings per share] was not applicable to the Financial Information is not duly supported on the basis that: (i) paragraph 3 of [financial reporting standard relevant to the presentation of financial statements] states that general purpose financial statements include those that are presented within another



public document such as a prospectus. The Financial Information was included within a listing document which was issued or proposed to be issued in connection with an application for listing and is a public document; and (ii) note [number] to “*Section B – Notes to the Financial Information*” of the Accountants’ Report stated that the Financial Information was prepared in accordance with all applicable [financial reporting standards].

- 3.3.5 In the light of the above, the AIB is of the view that the calculation and presentation of basic and diluted earnings per share on the face of the consolidated income statements of [Listco] for the Relevant Period in the Accountants’ Report are not prepared in accordance with paragraphs 3, 64 and 66 of [financial reporting standard relevant to earnings per share].

### 3.4 **Comments on the investigation report from [Reporting Accountant]**

- 3.4.1 [Reporting Accountant] provided its comments in a meeting with the representatives of the AIB on 5 January 2011 and in a letter of 7 January 2011 (Annex 3).

- 3.4.2 [Reporting Accountant] disagreed with the findings of the AIB based on reasons set out in its letter dated 7 January 2011. The headings used in the following paragraphs adopted the same headings as the letter of 7 January 2011 from [Reporting Accountant].

- 3.4.3 “*Basis of the draft report*”

- 3.4.3.1 [Reporting Accountant] stated that the findings of the AIB were formed on the basis that its work on the Accountants’ Report was in the nature of an audit which was not appropriate.

- 3.4.3.2 The letter from [Reporting Accountant] stated that “...*the investigation and the draft report have been conducted and prepared on the basis that our work on the Accountants’ Report was in the nature of an audit. With respect, such an approach is not appropriate.*

...

*The responsibility of the **reporting accountants** in their Accountants’ Report is to form an independent opinion on the **previously audited** historical financial information provided by the directors and to report their opinion in terms of **whether that financial information shows a true and fair view.**”*

3.4.4 “Compliance with relevant technical and professional standards”

3.4.4.1 [Reporting Accountant] reiterated that its work on the Accountants’ Report was not in the nature of an audit and the requirements of AG 3.340 were complied with. In respect of compliance with paragraph 64 of [financial reporting standard relevant to earnings per share], [Reporting Accountant] considered that it was a matter of difference of opinion about the location of the presentation of the earnings per share figures after the share split.

3.4.4.2 The letter from [Reporting Accountant] stated that “...we maintain that we have complied with the requirements of G.3.340 [AG 3.340], a position which you have not contradicted...

...

*In this regard we point out, without accepting your views, that:*

(a) *the requirements of paragraph 64 of [financial reporting standard relevant to earnings per share] were applied in that financial information. The recognition and measurement requirements of paragraph 64 of [financial reporting standard relevant to earnings per share] were applied to the EPS figures and accounted for the [number] for [number] Subdivision (share split).*

*These post-Subdivision EPS figures were presented as a stand-alone explanation in a separate section C of our Accountants’ Report.*

...

*Consequently, it seems to us that, even if your view that an Accountants’ Report is in the nature of an audit of financial statements is correct (which we do not accept), we have a situation which, at most, is a difference of opinion about the location of the presentation of the post-Subdivision EPS figures.*

(b) *...if our engagement had been to **audit** the financial statements for the year ended [latest financial year-end date] and we were providing an audit opinion on [date of Accountants’ Report], we would have required the directors to show the post-Sub-division EPS figures on the face of the income statement. We would again reiterate, however, that this Accountants’ Report engagement was not an audit of the financial statements;...*

- (d) *Your view that [financial reporting standard relevant to earnings per share] applies to Accountants' Report and requires that a Subdivision should have resulted in adjusted EPS figures on the face of the income statement is in conflict with the particular requirements of AG 3.340;*

*We note that AG 3.340 was last revised in September 2004, subsequent to the original issuance of [financial reporting standard relevant to earnings per share] in March 2004. We would have thought that if your view is correct then this significant matter would have been explored in the HKICPA's due process resulting in revisions to AG 3.340 in September 2004; and..."*

3.4.4.3 [Reporting Accountant] also referred to the proposed "HKSIR 200" [Hong Kong Standard on Investment Circular Reporting Engagements 200 Accountants' reports on historical financial information in investment circulars] issued for consultation in May 2004 in its letter.

3.4.5 "Compliance with paragraph 64 of [financial reporting standard relevant to earnings per share]"

3.4.5.1 [Reporting Accountant] stated that the basic and diluted earnings per share, calculated on the basis of the number of shares issued after the share split, were presented in section C of the Accountants' Report. It considered that it had complied with paragraph 64 of [financial reporting standard relevant to earnings per share].

3.4.5.2 The letter from [Reporting Accountant] stated that "Even if your view that paragraph 64 of [financial reporting standard relevant to earnings per share] is the relevant requirement because an Accountants' Report involves an audit is correct – which we would repeat we do not admit – we have nevertheless complied with all of the relevant requirements of Paragraph 64, as we further explain below.

*Paragraph 64 deals with the recognition and measurement of EPS, and it does not deal with presentation of those EPS figures which are dealt with in paragraph 66. For clarity of exposition we propose to split paragraph 64 into its four component sentences as follows:*

#### *Retrospective adjustments*

- (a) *If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalization, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively.*

- (b) *If these changes occur after the reporting period but before the financial statements are authorized for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.*
- (c) *The fact that per share calculations reflect such changes in the number of shares shall be disclosed.*
- (d) *In addition basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.*

64(a) *Complied with and presented in section C of the Accountants' Report;*

- (b) *Complied with. We took the view that, in the context of a review in an Accountants' Report of the three sets of previously audited financial statements, being "authorized for issue" when they were signed by the directors in [the two preceding financial years] and, for the latest [financial year] financial statements, on [date of approval of the financial statements of the latest financial year].*
- (c) *We would again point out that Accountants' Reports are not intended to and do not replicate or reproduce the previously audited financial statements being reviewed.*

*The Subdivision to be accounted for under sentence (a) of paragraph 64 was approved by shareholders on [date], subsequent to the directors' approval of the latest (i.e. [financial year]) annual financial statements on [date of approval of the financial statements of the latest financial year];*

- (d) *Complied with: disclosed by presentation in Section C of the Accountants' Report;*
- (e) *Not applicable. There were no errors or changes in accounting policies.*

*This means that the point at issue is the location of the presentation which is set out in paragraph 66."*

3.4.6 “Presentation”

3.4.6.1 [Reporting Accountant] considered that the share split was not a matter requiring adjustments to previously reported financial information under the requirements of AG 3.340. [Reporting Accountant] considered that it was a disclosure matter.

3.4.6.2 The letter from [Reporting Accountant] stated that “...*the Subdivision is not a matter requiring an adjustment of the previously audited financial statements under the particular requirements of AG 3.340.*

*As part of our due diligence, however, we were of the view that the Subdivision should be brought to the attention of readers of the Accountants’ Report.*

...

*In our professional judgement, the interests of disclosure were best served by showing the post-Subdivision EPS figures accounted for in accordance with paragraph 64 of [financial reporting standard relevant to earnings per share] in a separate section of the Accountants’ Report.*

*Apart from the greater visibility gained by being in a special section of the Accountants’ Report, this approach had the advantage of the Accountants’ Report providing comparison of the historical three year audited financial information EPS figures and the post-Subdivision EPS figures.*

*We are of the view that this presentation provides fuller and better information conducive to a true and fair view that simply amending the EPS figures on the face of the income statement, even if that was permitted by the requirements of AG 3.340 (and, as we have already demonstrated, this was not permitted in any event).”*

**3.5 Response of the AIB to comments from [Reporting Accountant]**

3.5.1 The AIB emphasized that it did not mention or imply in any circumstances that the investigation and the draft investigation report had been conducted and prepared on the basis that the work of [Reporting Accountant] on the Accountants’ Report was in the nature of a statutory audit.

3.5.2 The AIB acknowledges that the responsibilities and procedures applied by a reporting accountant and an auditor in carrying out their work are not identical. Nevertheless, AG 3.340 does highlight some similarities between the two.

3.5.3 AG 3.340 sets out recommendations on “*certain aspects of the reports required to be given by accountants for the purpose of inclusion in prospectuses, offers for sale and similar documents*”. In particular, paragraphs 1 and 6 of AG 3.340 state, *inter alia*, that:

*“1...This Guideline is issued as recommendations of best current practice and should be read in conjunction with the Statements of Auditing Standards and the related Auditing Guidelines.*

*6. Examples of similarities in the responsibilities of the reporting accountant and the auditor are:*

*a. a "true and fair view" opinion is usually included in accountant's reports...it is a requirement under paragraph 4.08 of the Listing Rules to include such an opinion with regard to the results for the period reported on and to the assets and liabilities at the end of that period; and*

*b. the accountant's report requires the same skill and care as an audit report.”*  
(underline added)

3.5.4 Based on the above, the reporting accountant is required to express a “*true and fair view*” opinion on the financial information included in the accountant’s report and to exercise the same skill and care as an audit. The AIB considers that the reporting accountant should also observe the relevant auditing standards where appropriate.

3.5.5 Despite that the Financial Information was compiled from the Underlying Financial Statements, the AIB considers that it was a stand-alone document prepared in accordance with the “*Basis of Preparation*” in note [number] to “*Section B – Notes to the Financial Information*”. According to the “*Basis of Preparation*”, the Financial Information was prepared in accordance with all applicable [financial reporting standards]. For the Financial Information to give a true and fair view, the AIB considers that earnings per share presented on the face of the consolidated income statements of [Listco] for the Relevant Period should be based on the number of shares issued after the share split in order to comply with the requirements of [financial reporting standard relevant to earnings per share].

- 3.5.6 The AIB considers that in order to comply with paragraphs 64 and 66 of [financial reporting standard relevant to earnings per share], an entity should present on the face of the income statement the basic and diluted earnings per share that are correctly calculated. The AIB reiterates that it is of the view that presenting earnings per share figures before the share split on the face of the consolidated income statements is a non-compliance with paragraphs 64 and 66 of [financial reporting standard relevant to earnings per share] which could not be rectified by simply including a disclosure in “*Section C – Subsequent Events*” of the Accountants’ Report.
- 3.5.7 The AIB considers that the income statement is an important component of the financial statements, and any information which has to be presented on the face of the income statement including earnings per share, is equally important. [Financial reporting standard relevant to earnings per share] was the applicable technical and professional standard for the determination and presentation of earnings per share.
- 3.5.8 The AIB disagrees with [Reporting Accountant’s] argument set out in Paragraph 3.4.4.2(b). The AIB considers that the Financial Information should also be regarded as general purpose financial statements under [financial reporting standard relevant to the presentation of financial statements]. Given that the Financial Information was prepared on the basis of [applicable financial reporting standards], [financial reporting standard relevant to earnings per share] should equally apply to this “*Accountants’ Report engagement*”.
- 3.5.9 In relation to the applicability of “HKSIR 200”, the AIB considers that “*HKSIR 200*” was irrelevant as this proposed standard has not yet been finalized upon the issuance of the Listing Document.
- 3.5.10 In relation to the revision of AG 3.340 in September 2004, the AIB notes that it was a result of the passage of the Professional Accountants (Amendment) Ordinance 2004 which became effective on 8 September 2004. The amendments to AG 3.340 were to address the change of name from Hong Kong Society of Accountants to Hong Kong Institute of Certified Public Accountant, but not to address the issuance of [financial reporting standard relevant to earnings per share] in March 2004.

### **3.6 Comments on the investigation report from [Listco]**

- 3.6.1 [Legal Representative], on behalf of [Listco], provided its comment in a letter of 10 January 2011 (Annex 4).
- 3.6.2 [Legal Representative], pointed out under points 1.5 and 4.8(a) of its letter that “*It is [Reporting Accountant’s] responsibility to compile the financial information of the Group for the Relevant Period set out in the Accountants’ Report from the Underlying*

*Financial Statements, to form an independent opinion on the Financial Information ...”*  
*“...[Listco] had provided all relevant information to [Reporting Accountant] to prepare the Accountants’ Report, including but not limited to the Underlying Financial Statements and information relating to the Stock Split. As such, [Listco] had diligently complied with all its obligations and its Directors had properly fulfilled their fiduciary duties in connection with the preparation of the Listing Document and the Accountants’ Report. It would be unfair and unjust for [Listco], the Directors and its shareholders to suffer from the consequences...of any alleged non-compliance of accounting standard which is the responsibility of [Reporting Accountant]...”*

3.6.3 [Legal Representative] stated that the Listing Document was only published in connection with the listing of the shares of [Listco] [information omitted] pursuant to the requirements of the Listing Rules. [Information omitted]. [Legal Representative] made reference to the first page of the Listing Document which stated that “[*disclaimer shown on the first page of the Listing Document*].”

3.6.4 [Legal Representative] said under point 3.4 that given that the Listing Document was not a prospectus and [information omitted], any investing public who wished to invest in the shares of [Listco] through the stock market must therefore carry out his own research and not rely on the Listing Document. Therefore, [Listco] owed no duty of care to the investing public.

### **3.7 Response of the AIB to comments from [Listco]**

3.7.1 The AIB acknowledges that it was the responsibility of [Reporting Accountant] to compile the Financial Information from the Underlying Financial Statements and to express an opinion as to whether the Financial Information contained in the Accountants’ Report gave a true and fair view.

3.7.2 The AIB considers that the scope of this investigation was to collect information and evidence regarding the question whether or not there is a reporting irregularity in relation to the determination of earnings per share in respect of the preparation of the Accountants’ Report. Accordingly, the AIB is not in a position to comment on whether [Listco] owed a duty of care to the investing public.