

Press Release

## First enquiry completed in 2013

(31 May 2013, Hong Kong) The Financial Reporting Council (the “FRC”) completed an enquiry in relation to the consolidated financial statements of a listed entity for the year ended 31 March 2009 (the “Relevant Financial Statements”).

The FRC identified certain issues of potential non-compliance with accounting requirements based on the review of the Relevant Financial Statements. The FRC appointed a Financial Reporting Review Committee (E01-12) (the “FRRC”) to conduct an enquiry on 3 May 2012. The enquiry was completed on 23 May 2013 and the report on the findings of the enquiry was adopted by the FRC on 28 May 2013.

According to the enquiry, the listed entity did not recognize and measure the exploration and evaluation assets acquired and the goodwill arising from the acquisition of a subsidiary (the “Acquisition”) in accordance with paragraphs 36, 51 and 52 of Hong Kong Financial Reporting Standard (“HKFRS”) 3 *Business Combinations* at the date of the Acquisition.

In addition, the gross carrying amount and the accumulated amortization of the exploration and evaluation assets acquired from the Acquisition should not be separately recognized and disclosed as such in the Relevant Financial Statements. There is non-compliance with paragraphs 33, 118(c) and 118(e)(i) of Hong Kong Accounting Standard (“HKAS”) 38 *Intangible Assets*.

Furthermore, the amount of the consideration transferred in the Acquisition, which did not require the use of cash and cash equivalents, should not be included in the consolidated cash flow statement for the year ended 31 March 2009. The consolidated cash flow statement for the year ended 31 March 2009 included in the Relevant Financial Statements was materially misstated and there is non-compliance with paragraphs 1 and 43 of HKAS 7 *Cash Flow Statements*.

Based on the recommendations of the FRRC, the FRC has issued a notice under section 49 of the Financial Reporting Council Ordinance (Cap. 588) to the listed entity requiring the removal of the relevant non-compliance with HKAS 38 and HKFRS 3 by making retrospective restatements of the opening balances and the comparative figures in accordance with paragraph 42 of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* when the listed entity issues its consolidated financial statements for the year ended 31 March 2011.

The FRC would like to remind preparers of financial statements that the acquirer should recognize the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at the date of business combination, in order to properly recognize and measure any goodwill arising from the business combination.

The FRRC comprised five members, including Mr LIE-A-CHEONG Tai-chong, David, SBS, OM, JP as the Chairman, Mr CHAN Ka-ling, Edmond, Ms CHAU Suet-fung, Dilys, Prof LOW Chee-keong and Ms WONG Wai-kwan, Anna as members.

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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).