

First enquiry completed in 2012

(14 May 2012, 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 December 2008 (the "Relevant Financial Statements").

Upon receipt of a complaint and following a preliminary review, the FRC appointed a Financial Reporting Review Committee (E01-11) (the "FRRC") to conduct an enquiry on 7 July 2011. The enquiry was completed on 19 April 2012 and the report on the findings of the enquiry was adopted by the FRC on 3 May 2012.

The FRRC considers that the listed entity did not identify and separately recognize the exploration right to a mine at its fair value at the date of the acquisition of a subsidiary, which is not in compliance with paragraph 36 of Hong Kong Financial Reporting Standard ("HKFRS") 3 *Business Combinations*.

The FRRC is of the view that the listed entity should have adjusted the acquisition date fair value of the exploration right to another mine upon the completion of the initial accounting of the acquisition, when the fair value of such right was finalized, in accordance with HKFRS 3.

The FRRC considered that the explorations rights to the mines should be carried at cost less accumulated amortization and any impairment losses after recognition. The FRRC is of the view that the subsequent revaluation of the exploration rights to the mines did not comply with Hong Kong Accounting Standard ("HKAS") 38 *Intangible Assets*.

The FRRC also found that the Relevant Financial Statements did not disclose the carrying amounts of each class of identifiable assets and liabilities immediately before the date of the acquisition, which is not in compliance with paragraph 67 of HKFRS 3.

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 HKFRS 3 and HKAS 38 by making prior period adjustments to restate the opening balances and the comparative figures as required under paragraph 42 of HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in the interim financial report of the listed entity for the six months ending 30 June 2012.

The FRC would like to remind preparers of financial statements that the unavailability of information at the date of acquisition on the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities does not necessarily render the carrying amounts of such assets and liabilities equal to their fair values. If information about facts and circumstances that existed as of the acquisition date is obtained within one year from the acquisition date, the acquirer should retrospectively adjust the provisional amounts recognized at the acquisition date. Moreover, it is uncommon for an active market as described in paragraph 8 of HKAS 38 to exist for exploration rights to mineral resources. These assets should be carried at cost less accumulated amortization and any impairment losses after recognition.

The FRRC comprised five members, including Mr. Stephen TAYLOR as the Chairman, Mr. CHAN Shu-kin, Albert, Mrs. CHENG TANG Ho-kuen, Lina, Mr. FUNG Ting-sek, Eugene and Prof. LIN Zhijun 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.