

Press Release
17 October 2011

Second enquiry completed in 2011

(17 October 2011, 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, the FRC appointed a Financial Reporting Review Committee (E01-10) (the "FRRC") to conduct an enquiry on 19 November 2010. The enquiry was completed on 16 September 2011 and the report on the findings of the enquiry was adopted by the FRC on 6 October 2011.

The issue of this enquiry relates to the measurement of the consideration shares (the "Consideration Shares") issued on the acquisition of a subsidiary by the listed entity in the Relevant Financial Statements.

The FRRC considers that judgement is required to determine whether the published price at the date of exchange (i.e. the acquisition date) is an unreliable indicator of fair value and that it is not unreasonable for the management to use another valuation method instead of the published share price on the date of exchange in the fair value measurement of the Consideration Shares.

The FRRC is of the view that the accounting treatment adopted by the listed entity could not be considered as a non-compliance with paragraphs 24 and 27 of Hong Kong Financial Reporting Standard 3 Business Combinations ("HKFRS 3").

However, the FRRC considers that the inadequate disclosure, in particular, in relation to management's decision that an alternative measure is more reliable in the Relevant Financial Statements, is a non-compliance with paragraph 67(d)(ii) of HKFRS 3.

Based on the recommendation of the FRRC, the FRC has written to the listed entity to advise the company that it should have disclosed (i) why it considered that an alternative measure of fair value rather than the published price at the date of exchange was more reliable in determining the fair value of the Consideration Shares; (ii) the method and significant assumptions used to attribute a value to the Consideration Shares; and (iii) the aggregate amount of the difference between the value attributed to, and the published price of, the Consideration Shares in the Relevant Financial Statements in accordance with paragraph 67(d)(ii) of HKFRS 3.

The FRC would like to remind preparers of financial statements to make proper disclosures in relation to business combinations in accordance with HKFRS 3.

The FRRC comprised five members, including Dr. LI Ka-cheung, Eric, G.B.S., J.P. as the Chairman, Prof. CHEN Chien-wen, Kevin, Mr. LAU Siu-ki, Kevin, Ms. LEE Sau-wai, Cecilia and Ms. Melissa Kaye PANG, M.H., J.P. as members.

The [full report](#), on a no-name basis, is available on the website of the FRC (www.frc.org.hk).