

Enquiry in relation to Core Healthcare Investment Holdings Limited

On 29 October 2008, the Financial Reporting Council (the “Council”) received a complaint in relation to the accounting treatment of convertible bonds being recognized in the consolidated financial statements of Core Healthcare Investment Holdings Limited (“Core Healthcare”) (Stock code: 08250) for the year ended 30 June 2008 (the “2008 Financial Statements”). The auditor expressed an unqualified opinion and no modification to the auditor’s report of the 2008 Financial Statements. On 17 March 2009, the Council resolved to appoint a Financial Reporting Review Committee, reference E01-09 (the “FRRC”) to conduct an enquiry in relation to the 2008 Financial Statements. On 31 August 2009, the FRRC completed the enquiry and prepared a report on the findings of the enquiry (the “Enquiry Report”). The Enquiry Report was subsequently adopted by the Council on 3 September 2009.

Core Healthcare issued convertible bonds in January 2008 and the initial conversion price is subject to “standard” anti-dilutive adjustment provisions applicable in the event of share consolidation, share subdivision, capitalization issue, capital distribution, rights issue (of shares, options or warrants) or issue of convertible securities or new shares in certain circumstances, as it described in its circular dated 6 December 2007. As stated in its accounting policies in the 2008 Financial Statements, it designated the entire bonds as financial liabilities at fair value through profit or loss upon initial recognition. At 30 June 2008, Core Healthcare measured the convertible bonds in question at fair value of HK\$490,548,687 and recognized a corresponding fair value loss of HK\$340,548,687 in the 2008 Financial Statements.

On 30 March 2009, Core Healthcare announced that the convertible bonds in question were fully redeemed. Based on the unaudited third quarterly report of Core Healthcare and its subsidiaries for the nine months ended 31 March 2009, HK\$338,810,331 was recognized in the consolidated income as gain on early redemption of the convertible bonds in question.

Based on the results of the enquiry, the FRRC considers that Core Healthcare is entitled to take the anti-dilutive clauses included in the subscription agreement of the convertible bonds in question as a violation of the “fixed-for-fixed” criterion and therefore classified the equity conversion feature of the convertible bonds in question as a financial liability. As such, it was appropriate for the whole amount of the convertible bonds in question, including the host debt instrument and the embedded equity conversion feature, to be designated as a financial liability through profit or loss and accounted for at fair value. As a result, the FRRC concludes that there is no relevant non-compliance in the Relevant Financial Statements.

There are variations in the accounting treatments of convertible bonds with anti-dilutive provisions. The observation of the Financial Reporting Council in this connection is provided in the statement in the appendix.

The Enquiry Report is published on the website of the FRC (www.frc.org.hk) on 18 September 2009.