

## **Enquiry in relation to Dahe Media Co. Limited**

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### **The Enquiry**

The Financial Reporting Council (the “Council”) initiated an enquiry in relation to the condensed consolidated financial statements of Dahe Media Co. Limited (“Dahe Media”) (Stock code: 08243) for the six months ended 30 June 2007 (the “Relevant Financial Statements”). On 31 October 2007, the Council appointed a Financial Reporting Review Committee, reference E01-07 (the “FRRC”) to conduct the enquiry. On 21 May 2008, 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 29 May 2008.

Dahe Media formerly owned 60% of the equity interest in Chongqing Dahe Basu Media Co., Limited (“Dahe Basu”), a company established in the People’s Republic of China. Up to 31 December 2006, Dahe Basu had been accounted for as a subsidiary of Dahe Media in the consolidated financial statements of Dahe Media. On 15 May 2007, an Intermediate People’s Court in Chongqing appointed a liquidation committee (the “Liquidation Committee”) to take charge of the liquidation of Dahe Basu. It was claimed that, before 15 May 2007, the accounting records of Dahe Basu were maintained by a party other than Dahe Media.

The FRRC found that:

- (a) Dahe Media failed to account for Dahe Basu as a subsidiary in accordance with Hong Kong Accounting Standard (“HKAS”) 27, *Consolidated and Separate Financial Statements*, (“HKAS 27”) in the Relevant Financial Statements up to the date of the appointment of the Liquidation Committee when Dahe Media ceased to have control over Dahe Basu; and
- (b) Dahe Media failed to deconsolidate Dahe Basu on the date it ceased to have control in accordance with HKAS 27 and account for the investment in Dahe Basu thereafter as a financial asset (more specifically, as an available-for-sale financial asset) in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*, in the Relevant Financial Statements.

### **Post-Enquiry Events**

After the adoption of the Enquiry Report and acting on the recommendations of the FRRC, the Council issued a notice to Dahe Media on 29 September 2008 (the “Notice”) and required it to remove the relevant non-compliances in the Relevant Financial Statements.

In the few months after the adoption of the Enquiry Report, the Secretariat of the Council provided assistance to Dahe Media for it to obtain the necessary accounting records and information from the Liquidation Committee for the purpose of removing the non-compliances. On 18 September 2008, Dahe Media confirmed that it had obtained certain accounting records and information of Dahe Basu from the Liquidation Committee on 3 September 2008. On 29 October 2008, Dahe Media wrote to the Council that, based on the relevant accounting information of Dahe Basu provided by the Liquidation Committee, it found that the information available was incomplete for the purpose of removing the non-compliances and reissuing the Relevant Financial Statements by accounting for Dahe Basu as a subsidiary.

After considering all the information available, the Council is satisfied that there is insufficient accounting records and information which enable the accounting of Dahe Basu as a subsidiary. Notwithstanding this, the Council considers that the management of Dahe Media has the responsibility to ensure that, while Dahe Basu was a subsidiary, proper books and records of Dahe Basu should always have been maintained and sufficient financial information should always have been available for the proper management of the subsidiary.

On the other hand, the Council considers that, as Dahe Basu has been in liquidation, there has been objective evidence of impairment in relation to the investment in Dahe Basu. It considers the responsibility of the management is to make a best estimate of any impairment required to be accounted for in the Relevant Financial Statements.

Dahe Media does not agree with the view of the Council on the requirement for this impairment assessment. It considers that at the time of preparing the Relevant Financial Statements, the assets of Dahe Basu had not yet been allocated between the shareholders and there was not enough information available to assess the impairment of the investment in Dahe Basu.

Dahe Media did not perform an impairment assessment in respect of the investment in Dahe Basu in its financial statements for the year ended 31 December 2007 and for the six months ended 30 June 2008. On 25 February 2009, Dahe Media announced that it anticipated that an impairment would be made in respect of its investment in Dahe Basu as at 31 December 2008. The Council will continue to monitor the development.

The Enquiry Report is published on the website of the FRC ([www.frc.org.hk](http://www.frc.org.hk)) on 5 March 2009.