<u>CONVERGENCE PROJECT</u>

<u>EXPLANATORY MEMORANDUM</u>

A. INTRODUCTION

In 2001, the Hong Kong Institute of Certified Public Accountants (HKICPA) adopted a policy of achieving convergence of its Standards with the Standards set by the International Accounting Standards Board. In the light of this, the HKICPA's Financial Accounting Standards Committee (FASC) has, inter alias, undertaken a convergence project which aims to converge all its existing Standards with International Accounting Standards. This involves replacing all the existing Statements of Standard Accounting Practice (SSAPs) and Interpretations for which there are equivalent International Accounting Standards (IASs) and SIC Interpretations with Hong Kong Accounting Standards (HKASs) and HKAS Interpretations (HKAS-Int) with numbers corresponding to the equivalent IASs and SIC Interpretations, respectively.

Under this project, the HKICPA has issued the following HKAS and HKAS Interpretations either resulting from the IASB's "Improvements" project or from the Exposure Draft of proposed convergence of Hong Kong Accounting Standards with International Accounting Standards (ED/Convergence):

- HKAS 1 *Presentation of Financial Statements*
- HKAS 2 *Inventories*
- HKAS 7 *Cash Flow Statements*
- HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- HKAS 10 *Events after the Balance Sheet Date*
- HKAS 11 *Construction Contracts*
- HKAS 12 *Income Taxes*
- HKAS 14 *Segment Reporting*
- HKAS 16 *Property, Plant and Equipment*
- HKAS 17 *Leases*
- HKAS 18 *Revenue*
- HKAS 19 *Employee Benefits*
- HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- HKAS 21 *The Effects of Changes in Foreign Exchange Rates*
- HKAS 23 *Borrowing Costs*
- HKAS 24 *Related Party Disclosures*
- HKAS 27 *Consolidated and Separate Financial Statements*
- HKAS 28 *Investments in Associates*
- HKAS 29 *Financial Reporting in Hyperinflationary Economies*
- HKAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*
- HKAS 31 *Interests in Joint Ventures*
- HKAS 33 *Earnings Per Share*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- HKAS 40 *Investment Property*
- HKAS 41 *Agriculture*
- HKAS-Int-10 *Government Assistance – No Specific Relation to Operating Activities*
- HKAS-Int-12 *Consolidation – Special Purpose Entities*
- HKAS-Int-13 *Joint Controlled Entities – Non-Monetary Contributions by Venturers*

- HKAS-Int-15 *Operating Leases - Incentives*
- HKAS-Int-21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*
- HKAS-Int-25 *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*
- HKAS-Int-27 *Evaluating the Substance of Transactions in the Legal Form of a Lease*
- HKAS-Int-29 *Disclosure – Service Concession Arrangements*
- HKAS-Int-31 *Revenue – Barter Transactions Involving Advertising Services*
- HKAS-Int-32 *Intangible Assets – Website Costs*

The HKASs and HKAS Interpretations should be applied for annual periods beginning on or after 1 January 2005 with earlier application encouraged and, as a consequence, the following SSAPs and Interpretations of the HKSA are superseded:

- SSAP 1 *Presentation of Financial Statements* (revised 2001)
- SSAP 2 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* (revised 2001)
- SSAP 5 *Earnings Per Share* (revised 1998)
- SSAP 9 *Events after the Balance Sheet Date* (revised 2001)
- SSAP 10 *Accounting for Investments in Associates* (revised 2001)
- SSAP 11 *Foreign Currency Translation* (revised 2001)
- SSAP 12 *Income Taxes* (issued 2002)
- SSAP 13 *Accounting for Investment Properties* (revised 2000)
- SSAP 14 *Leases* (revised 2000)
- SSAP 15 *Cash Flow Statements* (revised 2001)
- SSAP 17 *Property, Plant and Equipment* (revised 2001)
- SSAP 18 *Revenue* (revised 2001)
- SSAP 19 *Borrowing Costs* (issued 1996)
- SSAP 20 *Related Party Disclosures* (issued 1997)
- SSAP 21 *Accounting for Interests in Joint Ventures* (revised 2001)
- SSAP 22 *Inventories* (revised 2001)
- SSAP 23 *Construction Contracts* (revised 2001)
- SSAP 25 *Interim Financial Reporting* (revised 2001)
- SSAP 26 *Segment Reporting* (revised 2001)
- SSAP 28 *Provisions, Contingent Liabilities and Contingent Assets* (issued 2001)
- SSAP 32 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* (revised 2001)
- SSAP 34 Employee Benefits (revised 2003)
- SSAP 35 *Accounting for Government Grants and Disclosure of Government Assistance* (issued 2002)
- SSAP 36 *Agriculture* (issued 2002)
- Interpretation 1 *Costs of Modifying Existing Software*
- Interpretation 5 *Property, Plant and Equipment – Compensation for the Impairment or Loss of Items*
- Interpretation 8 *Presentation of Financial Statements – Current Assets: Classification of Restricted and Appropriated Cash Balance*
- Interpretation 10 *Earnings per Share – Financial Instruments and Other Contracts that may be Settled in Shares*
- Interpretation 14 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- Interpretation 16 *Disclosure – Service Concession Arrangement*
- Interpretation 17 *Revenue – Barter Transactions Involving Advertising*

Services

- Interpretation 18 *Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests*
- Interpretation 19 *Intangible Assets – Website Costs*
- Interpretation 20 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*
- Interpretation 21 *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*

B. HKASs issued resulting from the IASB Improvements project

The IASB has issued a number of revised IASs as part of its project on Improvements to IASs. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies and conflicts within the IASs that the IASB inherited from its predecessor body, to deal with some convergence issues and to make other improvements.

Given the HKSA's policy to converge Hong Kong accounting standards with the IASB's Standards, a number of HKASs were issued in early 2004 to adopt the changes made as a result of the IASB improvements project as well as to eliminate, to the greatest extent, all differences that previously existed between Hong Kong accounting standards and the equivalent IASs.

C. HKASs issued resulting from ED/Convergence

In mid 2004, following the issue of the HKASs resulting from the IASB improvements project, the FASC issued ED/ Convergence with an aim to achieve full convergence of those SSAPs and Interpretations not previously replaced by HKASs and HKAS-Int consequent to the IASB Improvements Project. The ED/Convergence proposed to:

- Eliminate, to the greatest extent, all the textual differences, including differences in paragraph numbering and appendix referencing, between SSAPs and IASs;
- Include a basis for conclusions similar to that in the equivalent IASs;
- Uplift from the SSAP certain interpretations that had previously been written directly in a SSAP, but for which the IASB is retaining the Interpretation as a separate document and reissue them as separate interpretations;
- Allow certain alternative treatments that are available under IASs but not under SSAPs;
- Replace certain of those SSAPs that had not yet been revised consequent to the IASB improvements project where the FASC considered that the changes made by the IASB were so significant as to require re-exposure in Hong Kong;
- Adopt the remaining IASs or SIC interpretations where there were no equivalent SSAPs or Interpretations in Hong Kong

As a result of the ED/Convergence, a number of HKASs, which completed the full set of HKASs converged with IASs, were issued.

D. CHANGES

As discussed above, HKASs and HKAS Interpretations replace all the existing equivalent SSAPs and Interpretations with effect from 1 January 2005. A table of concordance showing how the new HKAS and HKAS-Int references, the equivalent IAS and SIC interpretation references and the previous SSAP and interpretation references correspond is attached at the end of this memorandum for reference.

HKAS that involve no material changes

There are no material changes from the related superseded SSAPs and Interpretations in respect of the following HKAS and HKAS-Interpretations as the related superseded SSAPs and Interpretations were already converged with the respective equivalent IAS and SIC Interpretations in all material respects:

HKAS	**Superseded SSAP**
HKAS 11 *Construction Contracts*	SSAP 23 *Construction Contracts*
HKAS 12 *Income Taxes*	SSAP 12 *Income Taxes*
HKAS 14 *Segment Reporting*	SSAP 26 *Segment Reporting*
HKAS 18 *Revenue*	SSAP 18 *Revenue*
HKAS 19 *Employee Benefits*	SSAP 34 *Employee Benefits*
HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*	SSAP 35 *Accounting for Government Grants and Disclosure of Government Assistance*
HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	SSAP 28 *Provisions, Contingent Liabilities and Contingent Assets*
HKAS 41 *Agriculture*	SSAP 36 *Agriculture*

HKAS Int	**Superseded Interpretation**
HKAS-Int 10 *Government Assistance – No Specific Relation to Operating Activities*	Incorporated into SSAP 20
HKAS-Int 25 *Income Taxes – Changes in the Tax Status of an Enterprise or Its Shareholders*	Interpretation 21 *Income Taxes – Changes in the Tax Status of an Enterprise or Its Shareholders*
HKAS-Int 27 *Evaluating the Substance of Transaction Involving the Legal Form of a Lease*	Interpretation 14 *Evaluating the Substance of Transaction Involving the Legal Form of a Lease*
HKAS-Int 29 *Disclosure – Service Concession Arrangements*	Interpretation 16 *Disclosure – Service Concession Arrangements*
HKAS-Int 31 *Revenue – Barter Transactions Involving Advertising Services*	Interpretation 17 *Revenue – Barter Transactions Involving Advertising Services*
HKAS-Int 32 *Intangible Assets – Website Costs*	Interpretation 19 *Intangible Assets – Website Costs*

HKAS that involve major changes from previous requirements

(1) <u>HKAS 1 *Presentation of Financial Statements*</u>

HKAS 1 *Presentation of Financial Statements* replaces SSAP 1 *Presentation of Financial Statements* (revised 2001) and Interpretation 8 *Presentation of Financial Statements – Current Assets: Classification of Restricted and Appropriated Cash Balance*. The main changes from SSAP 1 are described below.

True and Fair View and Departures from HKFRSs

As in SSAP 1, the Standard includes guidance on the meaning of 'give a true and fair view' and emphasises that the application of Hong Kong Financial Reporting Standards (HKFRSs) is presumed to result in financial statements that give a true and fair view.

The Standard however requires an entity, in the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the *Framework for the Preparation and Presentation of Financial Statements*, to depart from the requirement unless departure is prohibited by the relevant regulatory framework. In either case, the entity is required to make specified disclosures.

Classification of Assets and Liabilities

The Standard requires an entity to present assets and liabilities in order of liquidity when a liquidity presentation provides information that is reliable and is more relevant than a current/non-current presentation.

The Standard requires a liability held primarily for the purpose of being traded to be classified as current.

The Standard requires a financial liability that is due within twelve months after the balance sheet date, or for which the entity does not have an unconditional right to defer its settlement for at least twelve months after the balance sheet date, to be classified as a current liability. This classification is required even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. (Such an agreement would qualify for disclosure as a non-adjusting event after the balance sheet date in accordance with HKAS 10 *Events after the Balance Sheet Date*.) This reverses the previous requirement: SSAP 1 allowed such a financial liability to be classified as a non-current liability under such circumstances. However, this requirement does not affect the classification of a liability as non-current when the entity has, under the terms of an existing loan facility, the discretion to refinance or roll over its obligations for at least twelve months after the balance sheet date.

In some cases, a long-term financial liability is payable on demand because the entity has breached a condition of its loan agreement on or before the balance sheet date. The Standard requires the liability to be classified as current at the balance sheet date even if, after the balance sheet date, and before the financial statements are authorised for issue, the lender has agreed not to demand payment as a consequence of the breach. (Such an agreement would qualify for disclosure as a non-adjusting event after the balance sheet date in accordance with HKAS 10.) However, the liability is to be classified as non-current if the lender agreed by the balance sheet date to provide a period of grace ending at least twelve months after the balance sheet date. In this context, a period of grace is a period within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

Classification of Expenses

This Standard requires an entity to prepare an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.

Presentation and Disclosure

The Standard requires the following disclosures:

(a) The judgements, apart from those involving estimations (see (b) below), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements (e.g. management's judgement in determining whether financial assets are held-to-maturity investments);

(b) The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year; and

(c) The principal place of business if different from the address of its registered office.

The revised Standard does not require the disclosure of the results of operating activities, and extraordinary items, as line items on the face of the income statement. The revised Standard also prohibits disclosure of 'extraordinary items' in financial statements.

The Standard includes all requirements previously set out in other Standards for the presentation of particular line items on the face of the balance sheet and income statement (and makes the necessary consequential amendments to those Standards). The line items are:

(a) Investment properties;

(b) Biological assets;

(c) Liabilities and assets for current tax, deferred tax liabilities and deferred tax assets; and

(d) Pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations.

Other Changes

The requirements for the selection and application of accounting policies have been transferred to HKAS 8 *Accounting Policies Changes in Accounting Estimates and Errors*.

The presentation requirements for profit or loss for the period formerly contained in SSAP 2 *Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies* have been transferred to this Standard.

This Standard no longer allows an item of income not to be recognised in the profit or loss even if the law permits or requires.

A definition of 'material' has been added, based on the guidance previously included in SSAP 1.

The Standard requires disclosure, on the face of the income statement, of the entity's profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent'. A similar requirement has been added for the statement of changes in equity. The allocated amounts are not to be presented as items of income or expense.

The Standard also requires minority interests to be presented on the face of the balance sheet within equity.

The Standard no longer sets out detailed rules for offsetting of assets and liabilities and states only that assets and liabilities shall not be offset unless required by a Standard or an Interpretation.

The Standard also no longer permits an entity not to disclose comparative information for the reconciliation of movements in fixed assets.

(2) <u>HKAS 2 *Inventories*</u>

HKAS 2 *Inventories*, replaces SSAP 22 *Inventories* (revised 2001). The main changes from SSAP 22 are described below.

Objective and Scope

The objective and scope paragraphs of the previous Standard were amended by removing the words 'held under the historical cost system', to clarify that the Standard applies to all inventories that are not specifically excluded from its scope.

Scope Clarification

The Standard clarifies that some types of inventories are outside its scope while certain other types of inventories are exempted only from the measurement requirements in the Standard.

Paragraph 3 establishes a clear distinction between those inventories that are entirely outside the scope of the Standard (described in paragraph 2) and those inventories that are outside the scope of the measurement requirements but within the scope of the other requirements in the Standard.

Scope Exemptions

Producers of agricultural and forest products, agricultural produce after harvest and minerals and mineral products

The Standard does not apply to the measurement of inventories of producers of agricultural and forest products, agricultural produce after harvest, and minerals and mineral products, to the extent that they are measured at net realisable value in accordance with well-established industry practices. The previous Standard was amended to replace the words ‘mineral ores’ with ‘minerals and mineral products’ to clarify that the scope exemption is not limited to the early stage of extraction of mineral ores.

Inventories of commodity broker-traders

The Standard does not apply to the measurement of inventories of commodity broker-traders to the extent that they are measured at fair value less costs to sell.

Cost of Inventories

Cost of purchase

A paragraph (paragraph 18) was inserted to clarify that when inventories are purchased with deferred settlement terms, the difference between the purchase price for normal credit terms and the amount paid is recognised as interest expense over the period of financing.

Cost Formulas

Consistency

The Standard requires an entity to use the same cost formula for all inventories having a similar nature and use to the entity.

New Disclosures

Inventories carried at fair value less costs to sell

The Standard requires disclosure of the carrying amount of inventories carried at fair value less costs to sell.

Write-downs of inventories

The Standard requires disclosure of the amount of any write-down of inventories recognised as an expense in the period and eliminates the requirement to disclose the amount of inventories carried at net realisable value.

(3) <u>HKAS 7 *Cash Flow Statements*</u>

HKAS 7 *Cash Flow Statements* replaces SSAP 15 *Cash Flow Statements* (revised 2001). The main change from SSAP 15 is to remove the exemption from preparing a cash flow statement for:

(a) An entity with revenue of less than HK$20 million per annum; and

(b) A charity or non-profit making entity whose financial statements are prepared on a cash basis.

The HKICPA's recently issued Consultation Paper on the Proposed Implementation of a Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (available on the HKSA website at: http://www.hksa.org.hk/professionaltechnical/accounting/exposuredraft/SME-GAAP_CP-IIcl.pdf) would be of relevance to those entities with revenue of less than HK$20 million per annum that had previously not presented a cash flow statement.

(4) <u>HKAS 8, Accounting Policies, Changes in Accounting Estimates and Errors</u>

HKAS 8, Accounting Policies, Changes in Accounting Estimates and Errors replaces SSAP 2, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies (revised in 2001). The main changes from SSAP 2 are described below.

Selection of Accounting Policies

The requirements for the selection and application of accounting policies in SSAP 1 *Presentation of Financial Statements* have been transferred to the Standard. The Standard updates the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of Standards and Interpretations that specifically apply.

Materiality and Misstatements

The Standard defines material omissions or misstatements. It stipulates that:

(a) The accounting policies in Hong Kong Financial Reporting Standards (HKFRSs) need not be applied when the effect of applying them is immaterial. This complements the statement in HKAS 1 that disclosures required by HKFRSs need not be made if the information is immaterial.

(b) Financial statements do not comply with IFRSs if they contain material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows.

(c) Material prior period errors are to be corrected retrospectively in the first set of financial statements authorised for issue after their discovery, whether or not they are regarded as fundamental.

Impracticability

The Standard retains the 'impracticability' criterion for exemption from changing comparative information when changes in accounting policies are applied retrospectively and prior period errors are corrected. The Standard now includes a definition of 'impracticable' and guidance on its interpretation.

The Standard also states that when it is impracticable to determine the cumulative effect, at the beginning of the current period, of:

(a) applying a new accounting policy to all prior periods, or
(b) an error on all prior periods,

the entity changes the comparative information as if the new accounting policy had been applied, or the error had been corrected, prospectively from the earliest date practicable.

Disclosures

The Standard now requires, rather than encourages, disclosure of an impending change in accounting policy when an entity has yet to implement a new Standard or Interpretation that has been issued but not yet come into effect. In addition, it requires disclosure of known or reasonably estimable information relevant to assessing the possible impact that application of the new Standard or Interpretation will have on the entity's financial statements in the period of initial application.

The Standard requires more detailed disclosure of the amounts of adjustments resulting from changing accounting policies or correcting prior period errors. It requires those disclosures to be made for each financial statement line item affected and, if HKAS 33 *Earnings per Share* applies to the entity, for basic and diluted earnings per share.

Other Changes

The presentation requirements for profit or loss for the period have been transferred to HKAS 1.

The Standard requires that:

(a) An entity selects and applies its accounting policies consistently for similar transactions, other events and conditions, unless a Standard or an Interpretation specifically requires or permits categorisation of items for which different policies may be appropriate; and

(b) If a Standard or an Interpretation requires or permits such categorisation, an appropriate accounting policy is selected and applied consistently to each category.

The Standard includes a definition of a change in accounting estimate.

The Standard includes exceptions from including the effects of changes in accounting estimates prospectively in profit or loss. It states that to the extent that a change in an accounting estimate gives rise to changes in assets or liabilities, or relates to an item of equity, it is recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

(5) <u>HKAS 10 *Events after the Balance Sheet Date*</u>

HKAS 10 *Events after the Balance Sheet Date* replaces SSAP 9 *Events After the Balance Sheet Date* (revised 2001).

The main change from SSAP 9 is related to the paragraphs concerning dividends. Previously, those paragraphs stated that if dividends are proposed or declared after the balance sheet date, an enterprise should not recognise those dividends as a liability at the balance sheet date. As revised, those paragraphs state that if an entity declares dividends after the balance sheet date, the entity shall not recognise those dividends as a liability at the balance sheet date.

(6) <u>HKAS 16 *Property, Plant and Equipment*</u>

HKAS 16 *Property Plant and Equipment* replaces SSAP 17 *Property, Plant and Equipment* (revised 2001), Interpretation 1 *Costs of Modifying Existing Software* and Interpretation 5 *Property, Plant and Equipment - Compensation for the Impairment or Loss of Items*. The main changes from SSAP 17 are described below.

Scope

This Standard removes the exemption for charitable, government subvented and not-for-profit organisations whose long term financial objective is other than to achieve operating profits (e.g. trade associations, clubs and retirement schemes) from compliance with the Standard provided that full disclosure of their accounting policies was made.

This Standard provides that, while existing investment properties are under re-development for continued use as investment properties, they should be accounted for under HKAS 40 *Investment Property,* rather than the Standard. SSAP 13 *Accounting for Investment Properties,* which was replaced by HKAS 40, however stated that investment properties should be completed properties.

Recognition—subsequent costs

An entity evaluates under the general recognition principle all property, plant and equipment costs at the time they are incurred. Those costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service an item. Previously, SSAP 17 contained two recognition principles. An entity applied the second recognition principle to subsequent costs.

Measurement at recognition—asset dismantlement, removal and restoration costs

The cost of an item of property, plant and equipment includes the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item. Its cost also includes the costs of its dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of using the item during a particular period for purposes other than to produce inventories during that period. Previously, SSAP 17 included within its scope only the costs incurred as a consequence of installing the item.

Measurement at recognition—asset exchange transactions

An entity is required to measure an item of property, plant and equipment acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets, at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset given up nor the asset received can be measured reliably. Previously, an entity measured such an acquired asset at fair value unless the exchanged assets were similar.

Measurement after recognition—Revaluation model

If fair value can be measured reliably, an entity may carry all items of property, plant and equipment of a class at a revalued amount, which is the fair value of the items at the date of the revaluation less any subsequent accumulated depreciation and accumulated impairment losses.

Depreciation—unit of measure

An entity is required to determine the depreciation charge separately for each significant part of an item of property, plant and equipment. Previously, SSAP 17 did not as clearly set out this requirement.

Depreciation—depreciable amount

An entity is required to measure the residual value of an item of property, plant and equipment as the amount it estimates it would receive currently for the asset if the asset were already of the age and in the condition expected at the end of its useful life. Previously, SSAP 17 indicated that the effects of inflation were not to be taken into account when estimating residual values and that residual values should not be revised to current prices, unless the asset was carried at fair value at the balance sheet date.

An entity is required to review the residual value and the useful life of an asset as well as the depreciation method applied to an asset at least at each financial year-end. Previously, SSAP 17 only required such review to be carried out on useful life and depreciation method periodically.

Depreciation—depreciation period

An entity is required to begin depreciating an item of property, plant and equipment when it is available for use and to continue depreciating it until it is derecognised, even if during that period the item is idle, unless the usage method of depreciation is being adopted. Previously, SSAP 17 specified that an entity should cease depreciating an item that it had retired from active use if it was holding the item for disposal.

Derecognition—derecognition date

An entity is required to wait until the date the criteria for the sale of goods in HKAS 18 *Revenue* are met before derecognising an item of property, plant and equipment, unless no future economic benefits are expected from its disposal or use. Previously, SSAP 17 did not require an entity to use those criteria to determine the date on which it derecognised the carrying amount of a disposed-of item of property, plant and equipment.

An entity is required to derecognise the carrying amount of a part of an item of property, plant and equipment if that part has been replaced and the entity has included the cost of the replacement in the carrying amount of the item.

Derecognition—gain classification

An entity cannot classify as revenue a gain it realises on the disposal of an item of property, plant and equipment. Previously, SSAP 17 did not contain this provision. However, it was implied by the definition of revenue in SSAP 18 *Revenue.*

Transfers between different types of assets

Unlike SSAP 17, this Standard does not contain guidance on transfers between different types of assets. Such guidance is dealt with in HKAS 40.

(7) HKAS 17 *Leases*

HKAS 17 *Leases* and HKAS-Int 15 *Operating Leases - Incentives* replace SSAP 14 *Leases* (revised 2000). The main changes from SSAP 14 are:

- To clarify that when classifying a lease of both land and buildings, the lease shall be split into two elements – a lease of land and a lease of buildings. The land element would normally be classified as an operating lease unless title passes to the lessee at the end of the lease term. The building element would be classified as an operating or finance lease by applying the classification criteria in the Standard. However, this Standard provides that separate measurement of the land and buildings elements would not be required when:

  – the lease payment between land and building could not be allocated reliably, (in which case, both leases will be classified as finance leases); or

  – the lessee's interest in both land and buildings is classified as an investment property in accordance with HKAS 40 and the fair value model is adopted; and

- To eliminate the choice of how a lessor accounts for initial direct costs incurred in negotiating a lease by requiring that such costs that are incremental and directly attributable to the lease be capitalised and allocated over the lease term. It should be noted, however, that these costs are distinct in nature from general pre-operating costs, which are to be expensed as incurred.

(8) <u>HKAS 21 *The Effects of Changes in Foreign Exchange Rates*</u>

HKAS 21 *The Effects of Changes in Foreign Exchange Rates* replaces SSAP 11 *Foreign Currency Translation***.** The main changes from SSAP 11 are described below.

Scope

The Standard excludes from its scope foreign currency derivatives that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement*. Similarly, the material on hedge accounting has been moved to HKAS 39.

Definitions

The notion of 'reporting currency' has been replaced with two notions:

- Functional currency, i.e. the currency of the primary economic environment in which the entity operates.
- Presentation currency, i.e. the currency in which financial statements are presented.

Definitions - functional currency

When a reporting entity prepares financial statements, the Standard requires each individual entity included in the reporting entity—whether it is a standalone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary or branch)—to determine its functional currency and measure its results and financial position in that currency.

An entity (whether a stand-alone entity or a foreign operation) does not have a free choice of functional currency. An entity cannot avoid restatement in accordance with HKAS 29 *Financial Reporting in Hyperinflationary Economies* by, for example, adopting a stable currency (such as the functional currency of its parent) as its functional currency.

Reporting foreign currency transactions in the functional currency - change in functional currency

The Standard requires that a change in functional currency is accounted for prospectively. This was previously not dealt with in SSAP 11.

Use of a presentation currency other than the functional currency –translation to the presentation currency

The Standard permits an entity to present its financial statements in any currency (or currencies). For this purpose, an entity could be a stand-alone entity, a parent preparing consolidated financial statements or a parent, an investor or a venturer preparing separate financial statements in accordance with HKAS 27 *Consolidated and Separate Financial Statements.*

If the presentation currency is not the same as the functional currency, an entity is required to translate its results and financial position from its functional currency into a presentation currency (or currencies) using the method required for translating a foreign operation for inclusion in the reporting entity's financial statements. Under this method, assets and liabilities are translated at the closing rate, and income and expenses are translated at the exchange rates at the dates of the transactions (or at the average rate for the period when this is a reasonable approximation).

The Standard requires comparative amounts to be translated as follows:

(a) For an entity whose functional currency is not the currency of a hyperinflationary economy:

    (i) Assets and liabilities in each balance sheet presented are translated at the closing rate at the date of that balance sheet (i.e. last year's comparatives are translated at last year's closing rate).

    (ii) Income and expenses in each income statement presented are translated at exchange rates at the dates of the transactions (i.e. last year's comparatives are translated at last year's actual or average rate).

(b) For an entity whose functional currency is the currency of a hyperinflationary economy, and for which the comparative amounts are translated into the currency of a different hyperinflationary economy, all comparative amounts (e.g. balance sheet and income statement amounts) are translated at the closing rate of the most recent balance sheet presented (i.e. last year's comparatives, as adjusted for subsequent changes in the price level, are translated at this year's closing rate).

(c) For an entity whose functional currency is the currency of a hyperinflationary economy, and for which the comparative amounts are translated into the currency of a non-hyperinflationary economy, all amounts are those presented in the prior year financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

This translation method, like that described above, applies when translating the financial statements of a foreign operation for inclusion in the financial statements of the reporting entity, and when translating the financial statements of an entity into a different presentation currency.

Use of a presentation currency other than the functional currency – translation of a foreign operation

The Standard requires goodwill and fair value adjustments to assets and liabilities that arise on the acquisition of a foreign entity to be treated as part of the assets and liabilities of the acquired entity and translated at the closing rate.

Recognition of Exchange Differences

This Standard contains more detailed guidance on the recognition of exchange differences in the separate financial statements of the reporting entity, in particular those arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation. This Standard also clarifies that, when a gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss shall be recognised in equity.

Disposal of a Foreign Operation

The Standard requires that, on the disposal of a foreign operation, the cumulative amount of exchange differences deferred in the separate component of equity relating to that foreign operation shall be recognised in profit or loss when the gain or loss on disposal is recognised. Previously, this was dealt with in SSAP 32 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries.*

Disclosure

The Standard requires disclosure when a translation method different from that described above is used or other supplementary information (such as an extract from the full financial statements) is displayed in a currency other than the functional currency or the presentation currency.

The Standard also requires that, when the presentation currency is different from the functional currency, that fact shall be stated together with disclosure of the functional currency and the reason for using a different presentation currency.

In addition, entities must disclose when there has been a change in functional currency, and the reasons for the change.

(9) HKAS 23 *Borrowing Costs*

HKAS 23 *Borrowing Costs* replaces SSAP 19 *Borrowing Costs* (issued 1996). The main change from SSAP 19 is to allow, as the benchmark treatment, all borrowing costs to be expensed immediately. However, the Standard also continues to permit the capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. This allowed alternative treatment is the same as the treatment required under SSAP 19. For this HKAS, the benchmark treatment is interpreted as the recommended treatment unlike other HKAS where the benchmark is typically one of two alternatives.

(10) HKAS 24 *Related Party Disclosures*

HKAS 24 *Related Party Disclosures* replaces SSAP 20 *Related Party Disclosures* (issued 1997). The main changes from SSAP 20 are:

- To clarify that the entity's financial statements should contain the disclosures necessary to draw attention to the possibility that the financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with them. The disclosure of a related party relationship is required when one party controls the other regardless of whether there have been any transactions between the related parties.

- To expand the definition of related parties to cover post-employment benefit plans for the benefit of employees of an entity or of any entity that is a related party of the entity.

- To require disclosure of the compensation of key management personnel in aggregate by nature of compensation.

- To clarify the definition of close members of the family of an individual by providing a list of examples.

- To remove the exemption from disclosing transactions where specific exemptions are granted by statute.

- To remove the exemption for a wholly owned subsidiary from disclosing related party transactions.

- To require disclosure of the following:

  – The amounts of transactions and outstanding balances with respect to related parties. Disclosure of proportions of transactions and outstanding balances would no longer be sufficient.

  – The expense recognised during the period in respect of bad or doubtful debts due from related parties.

  – Classification of amounts payable to, and receivable from, related parties into different categories of related parties.

  – The name of the entity's parent and, if different, the ultimate controlling party. In addition, if neither of these two parties produces financial statements available for public use, disclosure of the name of the next most senior parent that does so is required.

(11) HKAS 27 *Consolidated and Separate Financial Statements*

HKAS 27 *Consolidated and Separate Financial Statements* replaces SSAP 32 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* (revised 2001) and supersedes *Interpretation 18 Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests.* The main changes from SSAP 32 are described below.

Scope

The Standard applies to accounting for investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of a parent, a venturer or investor. Therefore, the title of the Standard was amended.

Exemptions from Consolidating Investments in Subsidiaries

The Standard modifies the exemption from preparing consolidated financial statements. Previously, SSAP 32 only permitted a parent not to present consolidated financial statements if it is a wholly owned subsidiary of another entity. The new Standard however allows a parent not to present consolidated financial statements if the parent is itself a wholly-owned subsidiary, or the parent is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not preparing consolidated financial statements. However, the following additional conditions also need to be met before the exemption can be taken advantage of:

(a) The parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);

(b) The parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(c) The ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with Hong Kong Financial Reporting Standards or International Financial Reporting Standards.

The Standard clarifies the requirements for a parent exempted from preparing consolidated financial statements when the parent elects, or is required by local regulations, to present separate financial statements.

Temporary control

The Standard does not require consolidation of a subsidiary acquired when there is evidence that control is intended to be temporary. However, there must be evidence that the subsidiary is acquired with the intention to dispose of it within twelve months and that management is actively seeking a buyer. The words "within twelve months" replaced with the words "in the near future" which were in SSAP 32. Furthermore, the investment must be accounted for as a trading security under HKAS 39. When a subsidiary previously excluded from consolidation is not disposed of within twelve months it must be consolidated as from the date of acquisition unless narrowly specified circumstances apply.

The Standard stipulates that the requirement to consolidate investments in subsidiaries applies to venture capital organisations, mutual funds, unit trusts and similar entities. This was added for clarification.

An entity is not permitted to exclude from consolidation an entity it continues to control simply because that entity is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the parent. Control must be lost for exclusion to occur.

Consolidation Procedures

Hong Kong incorporated companies

This Standard still recognises the need for a Hong Kong incorporated company to use the definition of a subsidiary set out in the Companies Ordinance for the purpose of group accounts.

Special Purpose Entities

This Standard no longer contains the specific guidance on the consolidation of special purpose entitles as such guidance has been transferred to HKAS Interpretation 12 *Consolidation –Special Purpose Entities.*

Potential voting rights

The Standard requires an entity to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to govern the financial and operating policies of another entity. This requirement was previously included in Interpretation 18, which has been superseded.

Accounting policies

The Standard requires an entity to use uniform accounting policies for reporting like transactions and other events in similar circumstances. SSAP 32 provided an exception to this requirement when it was “not practicable to use uniform accounting policies”.

Minority interests

This Standard requires an entity to present minority interests in the consolidated balance sheet within equity, separately from the parent shareholders’ equity. Though SSAP 32 precluded presentation of minority interests within liabilities, it did not require presentation within equity.

Separate Financial Statements

The Standard prescribes the accounting treatment for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements. It requires these investments to be accounted for at cost or in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*.

Although the Standard retains a choice for accounting for these investments in an investor’s separate financial statements, it stipulates that when an entity accounts for investments in unconsolidated subsidiaries, jointly controlled entities or associates in accordance with HKAS 39 in its consolidated financial statements, it must also do so in its separate financial statements.

(12) HKAS 28 *Investments in Associates*

HKAS 28 *Investments in Associates* replaces SSAP 10 *Accounting for Investments in Associates* (revised in 2001) and supersedes Interpretation 18 *Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests*. The main changes from SSAP 10 are described below.

Scope

The Standard does not apply to investments that would otherwise be associates or interests of venturers in jointly controlled entities held by venture capital organisations, mutual funds, unit trusts and similar entities when those investments are classified as held for trading and accounted for in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*. Those investments are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they occur.

Furthermore, the Standard provides exemptions from application of the equity method similar to those provided for certain parents not to prepare consolidated financial statements. These exemptions include when the investor is also a parent exempt in accordance with HKAS 27 *Consolidated and Separate Financial Statements* from preparing consolidated financial statements (paragraph 13(b)), and when the investor, though not such a parent, can satisfy the same type of conditions that exempt such parents (paragraph 13(c)).

Significant Influence

Potential voting rights

An entity is required to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee. This requirement was previously included in Interpretation 18, which has been superseded.

Equity Method

The Standard clarifies that investments in associates over which the investor has significant influence must be accounted for using the equity method whether or not the investor also has investments in subsidiaries and prepares consolidated financial statements, unless the investor is a parent and is exempt from preparing consolidated financial statements under the exemptions available in HKAS 27, or, if it were a parent, would be exempt in the same circumstances as set out in HKAS 27. Financial statements in which the equity method is applied are not separate financial statements.

However, the investor does not apply the equity method when presenting separate financial statements prepared in accordance with HKAS 27.

Exemption from applying the equity method

The Standard does not require the equity method to be applied when an associate is acquired and held with a view to its disposal within twelve months of acquisition. There must be evidence that the investment is acquired with the intention to dispose of it and that management is actively seeking a buyer. The words “in the near future” were replaced with the words “within twelve months”. When such an associate is not disposed of within twelve months it must be accounted for using the equity method as from the date of acquisition, except in narrowly specified circumstances.

The Standard does not permit an investor that continues to have significant influence over an associate not to apply the equity method when the associate is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the investor. Significant influence must be lost before the equity method ceases to be applicable.

Elimination of unrealised profits and losses on transactions with associates

Profits and losses resulting from ‘upstream’ and ‘downstream’ transactions between an investor and an associate must be eliminated to the extent of the investor’s interest in the associate.

Non-coterminous year-ends

When financial statements of an associate used in applying the equity method are prepared as of a reporting date that is different from that of the investor, the difference must be no greater than three months.

Uniform accounting policies

The Standard requires an investor to make appropriate adjustments to the associate’s financial statements to conform them to the investor’s accounting policies for reporting like transactions and other events in similar circumstances. SSAP 10 provided an exception to this requirement when it was “not practicable to use uniform accounting policies”.

Recognition of losses

This Standard requires, if an investor’s share of losses of an associate equals or exceeds its interest in the associate, the investor should discontinue recognising its share of further losses. The interest in an associate is the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate. SSAP 10 limited the recognition of the investor’s share of losses to the carrying amount of its investment in the equity of the associate.

Separate Financial Statements

The requirements for the preparation of an investor’s separate financial statements are established by reference to HKAS 27.

(13) HKAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*

HKAS 30 is a new accounting standard to converge with IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*. In July 2004, the IASB published an Exposure Draft of an International Financial Reporting Standard (IFRS) ED 7 *Financial Instruments: Disclosures,* which proposes to replace IAS 30. Accordingly, HKAS 30 may be revised consequent to the finalisation of ED 7 by the IASB.

(14) HKAS 31 *Interests in Joint Ventures* and HKAS-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*

HKAS 31 *Interests in Joint Ventures* and HKAS-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* replace SSAP 21 *Accounting for Interests in Joint Ventures* (revised 2001). Significant changes from SSAP 21 are:

- To amend the scope so that the Standard does not apply to interests in jointly controlled entities held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds, provided that these are designated as either at fair value through profit or loss, or as held for trading, upon initial recognition and are accounted for in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*.

- To clarify the definition of "joint control".

- To allow a venturer to recognise its interest in a jointly controlled entity using one of the two reporting formats for proportionate consolidation. The venturer may combine its share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items, line by line, in its financial statements. Alternatively, the venturer may include separate line items for its share of the assets, liabilities, income and expenses of the jointly controlled entity in its financial statements.

- To include amendments necessary to take account of the extensive changes made to HKAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries and HKAS 28 Accounting for Investments in Associates as described above.

(15) HKAS 33 *Earnings per Share*

HKAS 33 *Earnings per Share* replaces SSAP 5 *Earnings Per Share* (revised 1998) and Interpretation 10 *Earnings Per Share—Financial Instruments and Other Contracts that May Be Settled in Shares*.

The main changes from SSAP 5 are to provide additional guidance and illustrative examples on selected complex matters, such as the effects of contingently issuable shares; potential ordinary shares of subsidiaries, joint ventures or associates; participating equity instruments; written put options; purchased put and call options; and mandatorily convertible instruments.

The new Standard also requires the disclosure of the basic and diluted EPS amounts for profit or loss from continuing ordinary operations and those for the discontinuing operation. In addition, the new Standard specifically states that an entity is not allowed to disclose earning per share amounts based on separate unconsolidated results within the consolidated financial statements.

(16) ***HKAS 40 Investment Property***

HKAS 40 *Investment Property* replaces SSAP 13 *Accounting for Investment Properties* (revised 2000) and applies to all entities that prepare and present their financial statements in accordance with HKFRS. Significant changes from SSAP 13 are:

- To require that all changes in the fair value of an investment property from one balance sheet date to the next are reported in the income statement. Previously, such changes were taken directly to an investment property revaluation reserve account on a portfolio basis to the extent that the reserve remained in surplus.

- To allow a lessee to classify an interest in land and buildings held under an operating lease as an investment property in accordance with HKAS 40 provided it meets the criteria for investment property and the fair value model is adopted for that property.

- To introduce a cost model for accounting for investment property (other than investment property held under an operating lease) and which, if chosen, would be applied to all investment property and only on the first-time adoption of HKAS 40.

- To remove the requirement to determine that the fair value of investment property on the basis of a valuation by a qualifier valuer annually and by an independent valuer at least every three years and, in either case, by a valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

- To remove the current requirement to depreciate property carried at fair value and held under leasehold interest with a remaining lease term of 20 years or less.

- To no longer set a 15% benchmark for determining the significance of the portion of property held for own use or leased to group companies.

- To require that investment property leased to other group companies is treated as investment property in an entity's separate financial statements.

(17) **HKAS-Int - *21 Income Taxes – Recovery of Revalued Non-Depreciable Assets***

HKAS-Int - *21 Income Taxes – Recovery of Revalued Non-Depreciable Assets* replaces Interpretation 20 *Income Taxes - Recovery of Revalued Non-Depreciable Assets*. The change from Interpretation 20 is to narrow its scope to include only investment properties that are carried at revalued amounts under HKAS 40 but would be considered non-depreciable if HKAS 16 were to be applied. Unlike Interpretation 20 all investment properties that are carried at revalued amount under SSAP 13 were included in its scope.

Table of Concordance – Standards and Interpretations

With effect from 1 January 2005, all the existing Statements of Standard Accounting Practice (SSAP) and Interpretations for which there are equivalent International Accounting Standards (IAS) and SIC Interpretations will be replaced by Hong Kong Accounting Standards (HKAS) and HKAS Interpretations (HKAS-Int) with numbers corresponding to the equivalent IAS and SIC Interpretations, respectively. For full details of this change, please click on the following link:
http://www.hksa.org.hk/professionaltechnical/accounting/rm/memorandum.pdf.

The following tables show how the new accounting standard and interpretation references, the equivalent IASB Standard and Interpretation references and the previous accounting standard and interpretation references correspond.

Each individual HKSA accounting standard and interpretation contains comparison details between that standard or interpretation and its IASB equivalent. Copies of Standards and Interpretations, where this information can be found, can be accessed at the following links:
http://www.hksa.org.hk/professionaltechnical/accounting/standards/
http://www.hksa.org.hk/professionaltechnical/accounting/interpretations/

HONG KONG ACCOUNTING STANDARDS (HKAS)

HKAS No.	Title	IAS No.	Previous SSAP No.
HKAS 1	Presentation of Financial Statements	IAS 1	SSAP 1
HKAS 2	*Inventories*	IAS 2	SSAP 22
HKAS 7	*Cash Flow Statements*	IAS 7	SSAP 15
HKAS 8	*Accounting Policies, Changes in Accounting Estimates and Errors (previously known as Net Profit or Loss for the Period, Changes in Accounting Policies and Fundamental Errors)*	IAS 8	SSAP 2
HKAS 10	*Events After the Balance Sheet Date*	IAS 10	SSAP 9
HKAS 11	*Construction Contracts*	IAS 11	SSAP 23
HKAS 12	*Income Taxes*	IAS 12	SSAP 12
HKAS 14	*Segment Reporting*	IAS 14	SSAP 26
HKAS 16	*Property, Plant and Equipment*	IAS 16	SSAP 17
HKAS 17	*Leases*	IAS 17	SSAP 14
HKAS 18	*Revenue*	IAS 18	SSAP 18
HKAS 19	*Employee Benefits*	IAS 19	SSAP 34
HKAS 20	*Accounting for Government Grants and Disclosure of Government Assistance*	IAS 20	SSAP 35
HKAS 21	*The Effects of Changes in Foreign Exchange Rates*	IAS 21	SSAP 11
HKAS 23	*Borrowing Costs*	IAS 23	SSAP 19
HKAS 24	*Related Party Disclosures*	IAS 24	SSAP 20
HKAS 26	*Accounting and Reporting by Retirement Benefit Plans*	IAS 26	-
HKAS 27	*Consolidated and Separate Financial Statements (previously known as Consolidated Financial Statements and Accounting for Investments in Subsidiaries)*	IAS 27	SSAP 32

HKAS 28	*Investments in Associates (previously known as Accounting for Investments in Associates)*	IAS 28	SSAP 10
HKAS 29	*Financial Reporting in Hyperinflationary Economies*	IAS 29	-
HKAS 30	*Disclosures in the Financial Statements of Banks and Similar Financial Institutions*	IAS 30	-
HKAS 31	*Interests in Joint Ventures (previously known as Accounting for Interests in Joint Ventures)*	IAS 31	SSAP 21
HKAS 32	*Financial Instruments: Disclosure and Presentation*	IAS 32	-
HKAS 33	*Earnings Per Share*	IAS 33	SSAP 5
HKAS 34	*Interim Financial Reporting*	IAS 34	SSAP 25
HKAS 36	*Impairment of Assets*	IAS 36	SSAP 31
HKAS 37	*Provisions, Contingent Liabilities and Contingent Assets*	IAS 37	SSAP 28
HKAS 38	*Intangible Assets*	IAS 38	SSAP 29
HKAS 39	*Financial Instruments: Recognition and Measurement*	IAS 39	SSAP 24
HKAS 40	*Investment Property*	IAS 40	SSAP 13
HKAS 41	*Agriculture*	IAS 41	SSAP 36

Note: * The HKICPA FASC will consider at its December 2004 meeting the recommended withdrawal of SSAP 27 with effect from 1 January 2005.

HKAS INTERPRETATIONS (HKAS-Int)

HKAS-Int No.	Title	SIC Interpretation No.	Previous Interpretation No.
10	*Government Assistance – No Specific Relation to Operating Activities*	10	Incorporated in SSAP 35
12	*Consolidation - Special Purpose Entities*	12	Incorporated in SSAP 32
13	*Jointly Controlled Entities - Non-Monetary Contributions by Venturers*	13	Incorporated in SSAP 21
15	*Operating Leases - Incentives*	15	Incorporated in SSAP 14
21	*Income Taxes - Recovery of Revalued Non-Depreciable Assets*	21	Interpretation 20
25	*Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders*	25	Interpretation 21
27	*Evaluating the Substance of Transactions in the Legal Form of a Lease*	27	Interpretation 14
29	*Disclosure – Service Concession Arrangements*	29	Interpretation 16
31	*Revenue – Barter Transactions Involving Advertising Services*	31	Interpretation 17
32	*Intangible Assets – Website Costs*	32	Interpretation 19

Note: - SIC-7 *Introduction of the Euro* will not be adopted in Hong Kong.

23 November 2004