

**Joint Declaration of the China Accounting Standards Committee and the Hong Kong Institute of Certified Public Accountants on the converged China Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards**

**Annex I**

**Elaboration by the Hong Kong Institute of Certified Public Accountants on the background to the comparison project and the comparison process**

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**I. Background to the comparison project**

1. Mr. Wang Jun, Secretary-General of the China Accounting Standards Committee of the People's Republic of China, and Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB), signed a joint statement on 8 November 2005 in Beijing in respect of China's achievement on the convergence of the new China Accounting Standards for Business Enterprises (ASBEs) with International Financial Reporting Standards (IFRSs) with a limited number of differences. In addition, at the MOF's ceremony announcing the adoption of the new China ASBEs held on 15 February 2006 in Beijing, Sir David Tweedie also made his comments on China's achievement – the adoption of the new ASBEs has brought about substantial convergence between Chinese standards and IFRSs.
2. The Hong Kong Institute of Certified Public Accountants (Hong Kong Institute of CPAs) concurred with the joint declaration signed between the MOF and the IASB and Sir David's comments on China's progress of convergence of the new China ASBEs with IFRSs. Mr. Liu Yuting, Director-General, Administrative Office of the China Accounting Standards Committee and Ms. Winnie Cheung, Chief Executive and Registrar of the Hong Kong Institute of CPAs, signed a joint declaration on 12 May 2006 announcing that the new Chinese Accounting Standards System has achieved substantial convergence with HKFRSs. That joint declaration also sets out the commitment from both sides to further strengthen communication and enhance future cooperation on financial reporting standards matters and endeavour to uphold high quality IFRSs.

3. Following on from the commitment from both sides to further strengthen communication and cooperation, a MOF/HKICPA Convergence Joint Working Group was formed in early 2007 to prepare a detailed comparison between the China ASBEs and HKFRSs.

## **II. The Scope of the Comparison**

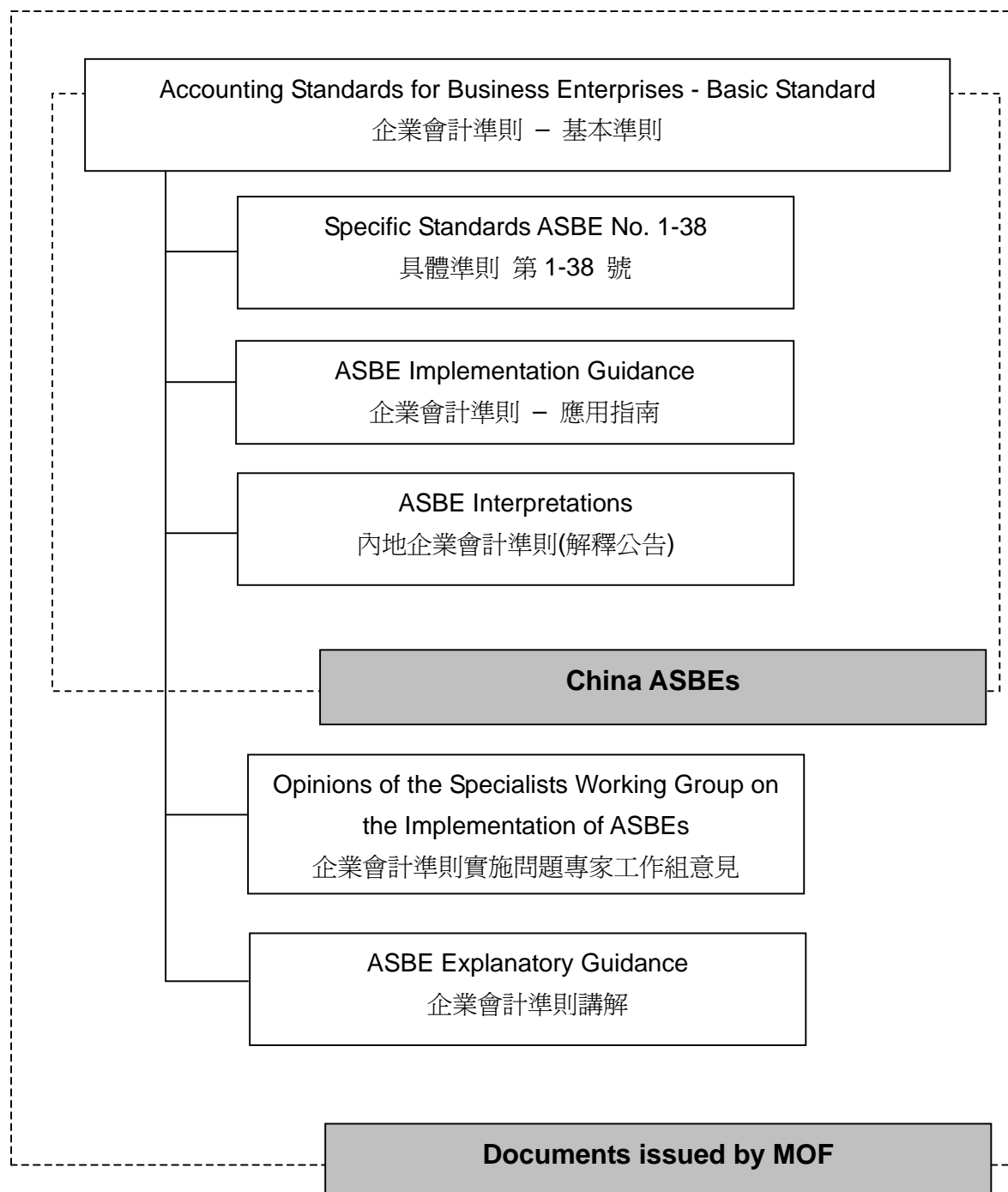
### **Documents compared**

4. The pronouncements compared include all the official mandatory standards and interpretations governing the preparation of financial statements issued by the MOF and the Hong Kong Institute of CPAs, i.e. China ASBEs and HKFRSs respectively.

### ***China ASBEs***

5. For the purpose of this comparison project, “China ASBEs” comprise:
  - a. Accounting Standards for Business Enterprises - Basic Standard;
  - b. Specific Standards ASBE No. 1-38;
  - c. ASBE Implementation Guidance; and
  - d. ASBE Interpretations.

6. The hierarchy of China ASBEs is diagrammatically represented as follows:



7. China ASBEs that are effective as at 6 December 2007 are set out in Appendix 1 to this Annex. The ASBE Basic Standard overrides all other China ASBEs. Specific Standards, ASBE Implementation Guidance and ASBE Interpretations have equal standing and, in the case of a conflict, the later pronouncement prevails.

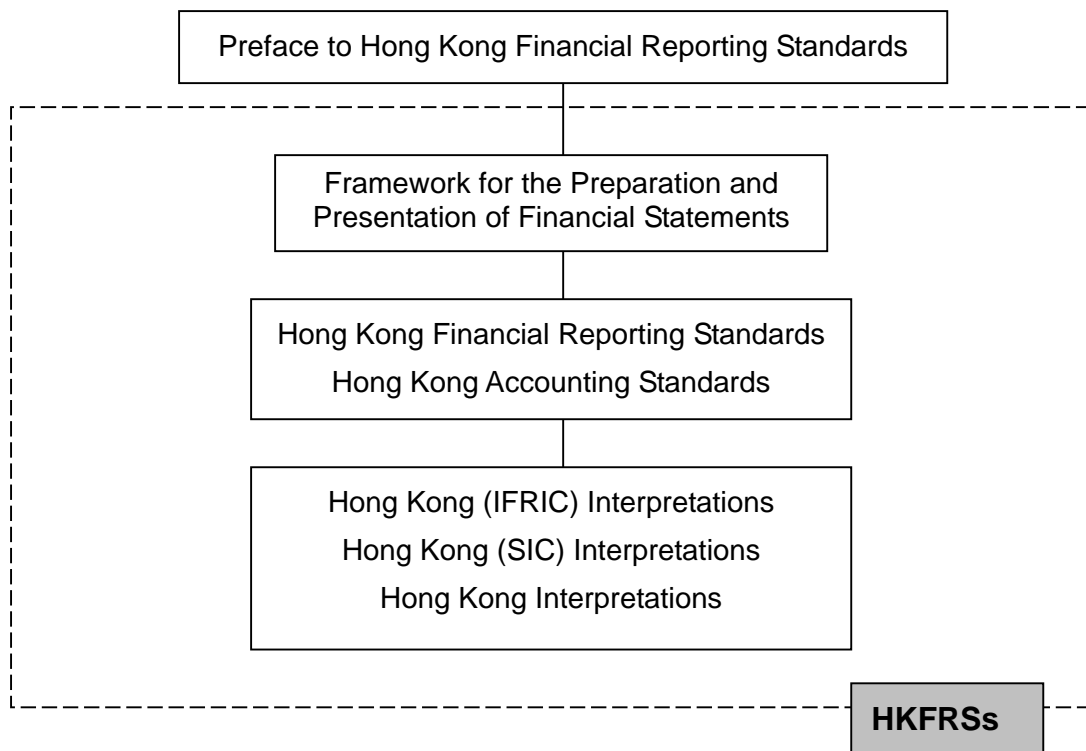
#### *Explanatory Guidance*

8. ASBE Explanatory Guidance (企業會計準則講解) was issued by the Accounting Regulatory Department of the MOF in April 2007. Because the Explanatory Guidance is not mandatory, it has not been reviewed in full as part of the comparison exercise. Supplementary ASBE Explanatory Guidance will be issued by the MOF by the end of April 2008 to supplement the volume issued in April 2007 and to address some of the differences identified in this project and, for that purpose, these have been reviewed.

#### **HKFRSs**

9. The term “HKFRSs”, as defined in the *Preface to HKFRSs*, includes all HKFRSs and Interpretations approved by the Council of the Hong Kong Institute of CPAs. HKFRSs comprise:
  - a. Framework for the Preparation and Presentation of Financial Statements;
  - b. Hong Kong Financial Reporting Standards;
  - c. Hong Kong Accounting Standards;
  - d. Hong Kong (IFRIC) Interpretations;
  - e. Hong Kong (SIC) Interpretations; and
  - f. Hong Kong Interpretations.

10. HKFRSs are fully converged word-for-word with IFRSs. The hierarchy of HKFRSs is diagrammatically represented as follows:



11. HKFRSs that are effective as at 6 December 2007 are set out in Appendix 2 to this Annex.

#### *Implementation Guidance*

12. Non-mandatory material such as Implementation Guidance and Illustrative Examples, which are included in the majority of HKFRSs are not covered under the comparison project.

#### **The cut-off date for the comparison**

13. The pronouncements that have been compared include all the relevant pronouncements effective on 6 December 2007.
14. Comparison of relevant pronouncements that become effective subsequent to 6 December 2007 is dealt with in Annex II to the Joint Declaration – Mechanism for ongoing elimination of reconciliation differences and maintenance of convergence. Pronouncements that are issued before, but are not yet effective as at, 6 December 2006 are available on the website of the Hong Kong Institute of CPAs [<http://www.hkicpa.org.hk>].

### **III. The comparison process**

#### **The approach**

15. The approach taken was an outcome-based comparison, being the identification of the differences between China ASBEs and HKFRSs and evaluation of whether the differences will result in preparers recognising and measuring material items in the financial statements in a different way. Given the different situations of the two suites of standards, HKFRSs were taken as the benchmark and compared with China ASBEs. It was not practical to identify minor textual differences. In undertaking this comparison,
- a. elimination of an option that is at the discretion of the preparer was not considered a difference;
  - b. HKFRS 1 *First-time Adoption of HKFRSs* and ASBE 38 *First-time Adoption of ASBEs* were developed for the purpose of transition from old standards to new standards and the impact on financial statements depends on the specific circumstances of each enterprise. We therefore excluded these standards from the comparison project; and
  - c. HKAS 26 *Accounting and Reporting by Retirement Benefit Plans* and ASBE 10 *Enterprise Pension Funds* were not compared because pension funds are not listed.

#### ***Identifying the differences***

16. The Hong Kong Institute of CPAs reviewed the requirements set out in all the relevant HKFRSs, traced the requirements to China ASBEs and decided whether the HKFRSs requirements are:
- a. addressed by China ASBEs;
  - b. omitted from China ASBEs; or
  - c. different from China ASBEs.

#### ***Eliminating the differences***

17. The comparison exercise revealed certain differences between HKFRSs and China ASBEs, as a result of requirements omitted from China ASBEs. The MOF has taken active steps to reduce the differences. As at the date of signing the Joint Declaration, differences have been eliminated by:
- a. issuing ASBE Interpretations; and
  - b. agreeing Supplementary Explanatory Guidance to be published by the end of April 2008.

18. Certain differences were found to be addressed in the ASBE Explanatory Guidance. In accepting the Explanatory Guidance as equivalent in standing to the mandatory standards and guidance, reliance is placed on the preamble to the Explanatory Guidance which notes that, in the case of any conflict between a China ASBE and the Explanatory Guidance, the requirement in the Standard prevails.
19. The Hong Kong Institute of CPAs is of the view that ASBE 5 *Biological Assets* complies with HKAS 41 *Agriculture* during the life of the biological asset where there is an active market, but the use of fair value in ASBE 5 is more restrictive than the use of fair value in HKAS 41 where an entity cannot obtain market data. The Hong Kong Institute of CPAs accepts the view that fair value cannot be reliably obtained in the Mainland through the use of models and agreed not to include this as a reconciliation difference.

#### **IV. Finalisation of the results of the comparison**

20. The results of the comparison are presented as a Joint Declaration between the MOF and the Hong Kong Institute of CPAs, supported by:
  - a. Elaboration by the Hong Kong Institute of Certified Public Accountants on the background to the comparison project and the comparison process (this Annex to the Joint Declaration); and
  - b. Mechanism for ongoing monitoring elimination of reconciliation differences and maintenance of convergence (Annex II to the Joint Declaration).
21. Developments subsequent to the date of signing the Joint Declaration between the MOF and the Hong Kong Institute of CPAs will be posted on the website of the Hong Kong Institute of CPAs at: <http://www.hkicpa.org.hk>.

6 December 2007

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**Appendix 1 to Annex I**

**China Accounting Standards for Business Enterprises**

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**ACCOUNTING STANDARD FOR BUSINESS ENTERPRISES – BASIC STANDARD**  
(Order No. 33 of Finance Minister of the People's Republic of China)

**ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES – SPECIFIC STANDARDS 1-38**

(Cai Kuai [2006] No. 3)

- Accounting Standard for Business Enterprises No. 1 – Inventories
- Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments
- Accounting Standard for Business Enterprises No. 3 – Investment Property
- Accounting Standard for Business Enterprises No. 4 – Fixed Assets
- Accounting Standard for Business Enterprises No. 5 – Biological Assets
- Accounting Standard for Business Enterprises No. 6 – Intangible Assets
- Accounting Standard for Business Enterprises No. 7 – Exchange of Non-Monetary Assets
- Accounting Standard for Business Enterprises No. 8 – Impairment of Assets
- Accounting Standard for Business Enterprises No. 9 – Employee Benefits
- Accounting Standard for Business Enterprises No. 10 – Enterprise Pension Funds
- Accounting Standard for Business Enterprises No. 11 – Share-based Payment
- Accounting Standard for Business Enterprises No. 12 – Debt Restructurings
- Accounting Standard for Business Enterprises No. 13 – Contingencies
- Accounting Standard for Business Enterprises No. 14 – Revenue
- Accounting Standard for Business Enterprises No. 15 – Construction Contracts
- Accounting Standard for Business Enterprises No. 16 – Government Grants
- Accounting Standard for Business Enterprises No. 17 – Borrowing Costs
- Accounting Standard for Business Enterprises No. 18 – Income Taxes
- Accounting Standard for Business Enterprises No. 19 – Foreign Currency Translation



- Accounting Standard for Business Enterprises No. 20 – Business Combinations
- Accounting Standard for Business Enterprises No. 21 – Leases
- Accounting Standard for Business Enterprises No. 22 – Financial Instruments: Recognition and Measurement
- Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets
- Accounting Standard for Business Enterprises No. 24 – Hedging
- Accounting Standard for Business Enterprises No. 25 – Direct Insurance Contracts
- Accounting Standard for Business Enterprises No. 26 – Reinsurance Contracts
- Accounting Standard for Business Enterprises No. 27 – Extraction of Oil and Natural Gas
- Accounting Standard for Business Enterprises No. 28 – Changes in Accounting Policies and Accounting Estimates and Corrections of Errors
- Accounting Standard for Business Enterprises No. 29 – Events after the Balance Sheet Date
- Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements
- Accounting Standard for Business Enterprises No. 31 – Cash Flow Statements
- Accounting Standard for Business Enterprises No. 32 – Interim Financial Reporting
- Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements
- Accounting Standard for Business Enterprises No. 34 – Earnings per Share
- Accounting Standard for Business Enterprises No. 35 – Segment Reporting
- Accounting Standard for Business Enterprises No. 36 – Related Party Disclosures
- Accounting Standard for Business Enterprises No. 37 – Financial Instruments: Presentation and Disclosures
- Accounting Standard for Business Enterprises No. 38 – First-time Adoption of Accounting Standards for Business Enterprises

**ASBE INTERPRETATION No. 1**

(Cai Kuai [2007] No. 14)

## **ASBE IMPLEMENTATION GUIDANCE**

(Cai Kuai [2006] No. 18)

- Implementation Guidance For Accounting Standard for Business Enterprises No. 1 – Inventories
- Implementation Guidance For Accounting Standard for Business Enterprises No. 2 – Long-term Equity Investments
- Implementation Guidance for Accounting Standard for Business Enterprises No. 3 – Investment Property
- Implementation Guidance for Accounting Standard for Business Enterprises No. 4 – Fixed Assets
- Implementation Guidance for Accounting Standard for Business Enterprises No. 5 – Biological Assets
- Implementation Guidance For Accounting Standard for Business Enterprises No. 6 – Intangible Assets
- Implementation Guidance for Accounting Standard for Business Enterprises No. 7 – Exchange of Non-Monetary Assets
- Implementation Guidance for Accounting Standard for Business Enterprises No. 8 – Impairment of Assets
- Implementation Guidance for Accounting Standard for Business Enterprises No. 9 – Employee Benefits
- Implementation Guidance for Accounting Standard for Business Enterprises No. 10 – Enterprise Pension Funds
- Implementation Guidance for Accounting Standard for Business Enterprises No. 11 – Share-based Payment
- Implementation Guidance for Accounting Standard for Business Enterprises No. 12 – Debt Restructurings
- Implementation Guidance for Accounting Standard for Business Enterprises No. 13 – Contingencies
- Implementation Guidance for Accounting Standard for Business Enterprises No. 14 – Revenue
- Implementation Guidance for Accounting Standard for Business Enterprises No. 16 – Government Grants
- Implementation Guidance for Accounting Standard for Business Enterprises No. 17 – Borrowing Costs
- Implementation Guidance for Accounting Standard for Business Enterprises No. 18 – Income Taxes
- Implementation Guidance for Accounting Standards for Business Enterprises No. 19 – Foreign Currency Translation
- Implementation Guidance for Accounting Standards for Business Enterprises No. 20 – Business Combinations
- Implementation Guidance for Accounting Standard for Business Enterprises No. 21 – Leases

- Implementation Guidance for Accounting Standard for Business Enterprises No. 22 – Financial Instruments: Recognition and Measurement
- Implementation Guidance for Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets
- Implementation Guidance for Accounting Standard for Business Enterprises No. 24 – Hedging
- Implementation Guidance for Accounting Standard for Business Enterprises No. 27 – Extraction of Oil and Natural Gas
- Implementation Guidance for Accounting Standard for Business Enterprises No. 28 – Changes in Accounting Policies and Accounting Estimates and Corrections of Errors
- Implementation Guidance for Accounting Standard for Business Enterprises No. 30 – Presentation of Financial Statements
- Implementation Guidance for Accounting Standard for Business Enterprises No. 31 – Cash Flow Statements
- Implementation Guidance for Accounting Standard for Business Enterprises No. 33 – Consolidated Financial Statements
- Implementation Guidance for Accounting Standard for Business Enterprises No. 34 – Earnings per Share
- Implementation Guidance For Accounting Standard for Business Enterprises No. 35 – Segment Reporting
- Implementation Guidance For Accounting Standard for Business Enterprises No. 37 – Financial Instruments: Presentation and Disclosures
- Implementation Guidance For Accounting Standard for Business Enterprises No. 38 – First-time Adoption of Accounting Standards for Business Enterprises

6 December 2007

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**Appendix 2 to Annex I**

**Hong Kong Financial Reporting Standards effective as at 6 December 2007**

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**FRAMEWORK FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**

**HONG KONG FINANCIAL REPORTING STANDARDS (HKFRS)**

- HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*
- HKFRS 2 *Share-based Payment*
- HKFRS 3 *Business Combinations*
- HKFRS 4 *Insurance Contracts*
- HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- HKFRS 6 *Exploration for and Evaluation of Mineral Resources*
- HKFRS 7 *Financial Instruments: Disclosures*

**HONG KONG ACCOUNTING STANDARDS (HKAS)**

- 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 26 *Accounting and Reporting by Retirement Benefit Plans*
- HKAS 27 *Consolidated and Separate Financial Statements*
- HKAS 28 *Investments in Associates*
- HKAS 29 *Financial Reporting in Hyperinflationary Economies*
- HKAS 31 *Interests in Joint Ventures*
- HKAS 32 *Financial Instruments: Presentation*
- HKAS 33 *Earnings per Share*
- HKAS 34 *Interim Financial Reporting*
- HKAS 36 *Impairment of Assets*
- HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- HKAS 38 *Intangible Assets*
- HKAS 39 *Financial Instruments: Recognition and Measurement*
- HKAS 40 *Investment Property*
- HKAS 41 *Agriculture*

#### **HONG KONG (IFRIC) INTERPRETATIONS (HK(IFRIC)-Int)**

- HK(IFRIC)-Int 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*
- HK(IFRIC)-Int 2 *Members' Shares in Co-operative Entities and Similar Instruments*
- HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*
- HK(IFRIC)-Int 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- HK(IFRIC)-Int 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*
- HK(IFRIC)-Int 7 *Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies*
- HK(IFRIC)-Int 8 *Scope of HKFRS 2*
- HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*
- HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*
- HK(IFRIC)-Int 11 *HKFRS 2 – Group and Treasury Share Transactions*

#### **HONG KONG (SIC) INTERPRETATIONS (HK(SIC)-Int)**

- HK(SIC)-Int 10 *Government Assistance – No Specific Relation to Operating Activities*
- HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*
- HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*
- HK(SIC)-Int 15 *Operating Leases – Incentives*

- HK(SIC)-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*
- HK(SIC)-Int 25 *Income Taxes – Changes in the Tax Status of an Entity or its Shareholders*
- HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*
- HK(SIC)-Int 29 *Disclosures – Service Concession Arrangements*
- HK(SIC)-Int 31 *Revenue – Barter Transactions Involving Advertising Services*
- HK(SIC)-Int 32 *Intangible Assets – Web Site Costs*

#### **HONG KONG INTERPRETATIONS (HK-Int)**

- HK-Int 1 *The Appropriate Accounting Policies for Infrastructure Facilities*
- HK-Int 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*
- HK-Int 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*

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