

Hong Kong Financial Reporting Standard for Private Entities

VS

Hong Kong Small and Medium-sized Entity
Financial Reporting Framework and Financial Reporting Standard

A High Level Comparison



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Hong Kong Financial Reporting Standard for Private Entities vs Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard

A High Level Comparison

This comparison was developed by the Institute's Standard Setting Department. It is intended to be a high level comparison between the Hong Kong Financial Reporting Standard for Private Entities and Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (“HK SME-FRF & SME-FRS”) and generally does not cover differences in disclosure requirements in both standards. It has not been approved by the FRSC and the Council of the Hong Kong Institute of Certified Public Accountants.

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	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
Section 1 Scope and application		
Qualifying entities	<p>Criteria:</p> <ul style="list-style-type: none"> No public accountability; and Publish general purpose financial statements for external users. Owners’ consent to use the HKFRS for Private Entities is not required. <p><i>(HKFRS for Private Entities 1.1-1.2)</i></p>	<p>For Non-HK incorporated company:</p> <ul style="list-style-type: none"> No public accountability; 100% owners’ consent to use SME-FRS; and Meet size criteria – not exceeding any two of the following: <ul style="list-style-type: none"> Total annual revenue of HK\$50 million.



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
		<ul style="list-style-type: none"> - Total assets of HK\$50 million at the balance sheet date. - 50 employees. <p>For HK incorporated company:</p> <ul style="list-style-type: none"> • Satisfies the criteria set out in section 141D of the Companies Ordinance. No quantified size criteria. <p style="text-align: right;"><i>(SME-FRF 16 - 17)</i></p>
Definition of “public accountability”	<ul style="list-style-type: none"> • The entity's debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or • The entity holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary business (typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks). <p style="text-align: right;"><i>(HKFRS for Private Entities 1.3)</i></p>	<ul style="list-style-type: none"> • Equity or debt securities that are publicly traded or it is in the process of issuing publicly traded equity or debt securities. • Institution authorised under the Banking Ordinance. • Insurer authorised under the Insurance Companies Ordinance. • Corporation which is granted a licence under the Securities and Futures Ordinance to carry on business in a regulated activity in Hong Kong. • <p style="text-align: right;"><i>(SME-FRF 22)</i></p>
Section 2 Concepts and Pervasive Principles		
Measurement bases	<ul style="list-style-type: none"> • Accrual basis. • Initial recognition – historical cost basis. • Subsequent measurement: 	<ul style="list-style-type: none"> • Accrual basis. • Historical cost except for the following with other measurement bases:



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
	<ul style="list-style-type: none">- Historical cost basis.- Amortised cost basis- Fair value basis.• Fair value basis is required/permitted in the following areas:<ul style="list-style-type: none">- investments in associates and joint ventures that an entity measures at fair value.- investment property that an entity measures at fair value.- agricultural assets (biological assets and agricultural produce at the point of harvest) that an entity measures at fair value less estimated cost to sell. <p style="text-align: right;"><i>(HKFRS for Private Entities 2.36, 2.46 - 2.50)</i></p>	<ul style="list-style-type: none">- Foreign currency monetary items (closing rate of balance sheet date);- Finance lease (present value of the minimum lease payments);- Impairment of assets (carrying amount less recoverable amount).• Assets should not be revalued nor should future cash flows be discounted in the measurement of assets and liabilities except when required or permitted. <p style="text-align: right;"><i>(SME-FRF 4, 14 – 15)</i></p>



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
Treatment if the standard does not specifically address a transaction	<ul style="list-style-type: none"> The entity's management shall use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. Consider the applicability of the following sources in descending order: <ul style="list-style-type: none"> Requirements and guidance in HKFRS for Private Entities dealing with similar and related issues. The definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles in Section 2 of HKFRS for Private Entities May also consider: <ul style="list-style-type: none"> full HKFRSs dealing with similar and related issues. There is no mandatory fallback to full HKFRSs. <p style="text-align: right;"><i>(HKFRS for Private Entities 10.4 – 10.6)</i></p>	<ul style="list-style-type: none"> May consider the SME-FRF for guidance on developing an appropriate accounting policy consistent with the historical cost convention. No fallback or cross-reference to HKFRSs. <p style="text-align: right;"><i>(SME-FRS 1.2 – 1.3)</i></p>
Section 3 Financial Statement Presentation		
Result of application of the standard	<ul style="list-style-type: none"> The application of HKFRS for Private Entities, with additional disclosure when necessary, is presumed to result in financial statements that achieve a true and fair view of the financial position, financial performance and cash flows of Private Entities. 	<ul style="list-style-type: none"> Result in financial statements that achieve a proper presentation of the financial position and financial performance. Result in financial statements that give a true and correct view (for Hong Kong incorporated companies that meet the qualifying criteria).



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
	<i>(HKFRS for Private Entities 3.2(a))</i>	<i>(SME-FRF 16 & SME-FRS 1.2)</i>
Complete set of financial statements	<ul style="list-style-type: none"> • Cash flow statement is required. • Statement of changes in equity is required, however, under limited circumstances; it may be combined with statement of comprehensive income by presenting a statement of income and retained earnings. <p style="text-align: right;"><i>(HKFRS for Private Entities 3.17 & 3.18)</i></p>	<ul style="list-style-type: none"> • Cash flow statement is not required. • Changes in equity can either be disclosed in the notes to the financial statements or as a separate component of the financial statements. <p style="text-align: right;"><i>(SME-FRS 1.1 & 1.29)</i></p>
Section 7 Statement of Cash Flows		
Reporting format	<ul style="list-style-type: none"> • Optional to choose indirect or direct method for presenting cash flows from operating activities <p><i>[Note: Indirect method is more commonly used in HK.]</i></p> <p style="text-align: right;"><i>(HKFRS for Private Entities 7.7)</i></p>	<ul style="list-style-type: none"> • Not applicable - Cash flow statement is not required.
Section 8 Notes to the Financial Statements		
Additional disclosure	<ul style="list-style-type: none"> • An entity shall disclose the judgments, apart from those involving estimates, that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. • An entity shall disclose the key assumptions concerning the future, and other key source of estimation uncertainty at the reporting date, that have a significant risk of causing a 	<ul style="list-style-type: none"> • No specific requirement on the disclosure of information about judgements and key sources of estimation uncertainty.



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
	<p>material adjustment to the carrying amount of assets and liabilities within the next financial year.</p> <p>(HKFRS for Private Entities 8.6 & 8.7)</p>	
Section 9 Consolidated and Separate Financial Statements		
Application to group accounts	<ul style="list-style-type: none"> • A parent entity shall present consolidated financial statements with all of its subsidiaries. • A parent need not present consolidated financial statements if: <ul style="list-style-type: none"> - <i>the parent is itself a subsidiary</i> and ultimate parent (or any intermediate parent) produces consolidated general purpose financial statements that comply with full HKFRSs, IFRSs, HKFRS for Private Entities or IFRS for SMEs; or - it has no subsidiaries other than one that was acquired with the intention of selling or disposing of it within one year. <p>(HKFRS for Private Entities 9.2 & 9.3)</p>	<ul style="list-style-type: none"> • Not applicable to group accounts.
Section 10 Accounting Policies, Estimates and Errors		
Retrospective application	<ul style="list-style-type: none"> • Comparative information presented for a particular prior period need not be restated if the period-specific effect on comparative information for one or more prior periods presented is <u>impracticable to determine.</u> <p>(HKFRS for Private Entities 10.12 & 10.22)</p>	<ul style="list-style-type: none"> • Comparative information presented for a particular prior period need not be restated if restating the information would require <u>undue cost or effort.</u> <p>(SME-FRS 2.8 & 2.13)</p>



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
Section 11 Basic Financial Instruments		
Scope	<ul style="list-style-type: none">• Basic financial instruments are: cash; simple debt instruments (such as loans payable or receivable), a commitment to receive a loan, and an investment in non-convertible preference shares and non-puttable ordinary and preference shares.• A debt instrument qualifies as basic if it satisfies the following conditions:<ul style="list-style-type: none">- Unleveraged return to holders that are easily determined;- No contractual provision that could, by its term, result in the holder losing the principal amount or interest attributable to the current or prior periods;- Contractual terms that permit early repayment are not contingent on future events; and- No conditional returns or repayment provisions other than those listed above.	<ul style="list-style-type: none">• There is no separate section on financial assets and financial liability. Investments in securities are generally covered in section 6 <i>Investments</i> and forward contracts are addresses in section 15 <i>The Effects of Changes in Foreign Exchange Rates</i>. <i>(SME-FRS 15.6 – 15.8)</i>



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
Initial and subsequent measurement	<ul style="list-style-type: none"> Optional to apply HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and the disclosure requirements of Section 11 and 12 of HKFRS for Private Entities. On initial recognition, a basic financial instrument is measured at transaction price, unless the arrangement is in effect a financing transaction. In this case, it is the present value of the future payment discounted using a market rate. At the end of each reporting period basic financial instruments are measured as follows: <ul style="list-style-type: none"> Debt instruments at amortised cost using the effective interest rate method. Commitments to receive a loan at cost (which could be nil) less impairment. Investment in non-convertible or non-puttable shares at fair value if the shares are publicly traded or fair value can be measured reliably, otherwise at cost less impairment. <p style="text-align: right;"><i>(HKFRS for Private Entities 11.2, 11.13 – 11.14)</i></p>	
Section 12 Other Financial Instruments Issues		
Scope	<ul style="list-style-type: none"> More complex financial instruments and transactions that are not basic financial instruments as defined in Section 11. 	<ul style="list-style-type: none"> There is no separate section on financial assets and financial liability. Investments in securities are generally covered in section 6 <i>Investment</i> and forward contracts are addressed under Section 15



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
		<i>The Effects of Changes in Foreign Exchange Rates.</i> <i>(SME-FRS 15.6 – 15.8)</i>
Initial and subsequent measurement	<ul style="list-style-type: none"> All financial instruments in the scope of section 12 are measured at fair value both on initial recognition and at each reporting date except for situations where there is no longer a reliable measure of fair value. In this case, an entity continues to carry that instrument at its last available fair value, which is treated as cost, subject to impairment, until the instrument is derecognised or its fair value becomes available. 	
Hedging	<ul style="list-style-type: none"> Hedge accounting permitted for four types of transactions: <ul style="list-style-type: none"> - interest rate risk of a debt instrument measured at amortised cost; - foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction; - price risk of a commodity or in a firm commitment or highly probable forecast transaction to purchase or sell a commodity; or - foreign exchange risk in a net investment in a foreign operation. <p><i>(HKFRS for Private Entities 12.17)</i></p>	<ul style="list-style-type: none"> Hedging is limited to forward contracts. <p><i>(SME-FRS 15.6 – 15.7)</i></p>



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
Section 14 Investments in Associates		
Measurement after initial recognition	<ul style="list-style-type: none"> • Optional to choose one of the following models: <ul style="list-style-type: none"> - cost model (i.e. cost less accumulated impairment losses). An investor shall measure its investments in associates for which there is a published price quotation using the fair value model; - equity method; or - fair value model. An investor using the fair value model shall use the cost model for any investment in an associate for which it is impracticable to measure fair value reliably without undue cost or effort. <p style="text-align: right;"><i>(HKFRS for Private Entities 14.4 – 14.10)</i></p>	<ul style="list-style-type: none"> • Covered in Section 6 <i>Investments</i>. There is no separate section on the investments in associates. • Carried at: <ul style="list-style-type: none"> - the lower of cost and net realisable value for current investments; and - cost less accumulated impairment losses for long-term investments <p style="text-align: right;"><i>(SME-FRS 6.7)</i></p>
Section 15 Investments in Joint Ventures		
Measurement after initial recognition	<ul style="list-style-type: none"> • Optional to choose one of the following models for jointly controlled entities accounting: <ul style="list-style-type: none"> - cost model (i.e. cost less accumulated impairment losses). A venture shall measure its investments in jointly controlled entities for which there is a published price quotation using the fair value model; - equity method; or - fair value model. A venture using the fair value model shall use the cost model for any investment in a jointly 	<ul style="list-style-type: none"> • Covered in Section 6 <i>Investments</i>. There is no separate section on the investments in joint ventures. • Carried at: <ul style="list-style-type: none"> - the lower of cost and net realisable value for current investments; and - cost less accumulated impairment losses for long-term investments. <p style="text-align: right;"><i>(SME-FRS 6.7)</i></p>



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
	<p>controlled entity for which it is impracticable to measure fair value reliable without undue cost or effort.</p> <p><i>(HKFRS for Private Entities 15.9 – 15.15)</i></p>	
Section 16 Investment property		
Measurement after initial recognition	<ul style="list-style-type: none"> Investment property whose fair value can be measured reliably without undue cost or effort shall be measured at fair value at each reporting date with changes in fair value recognised in profit or loss. An entity shall account for all other investment property as property, plant and equipment using the cost-depreciation-impairment model in Section 17. <p><i>(HKFRS for Private Entities 16.7, BC 133)</i></p>	<ul style="list-style-type: none"> Covered in Section 3 <i>Property, Plant and Equipment</i>. There is no separate section on investment property. The definition of property, plant and equipment includes property held for rental and/or for investment potential. Investment property should be carried at its cost less any accumulated depreciation and accumulated impairment losses. <p><i>(SME-FRS 3.1 & 3.10)</i></p>
Section 17 Property, Plant and Equipment		
Measurement after initial recognition	<ul style="list-style-type: none"> All items of PPE after initial recognition are measured at cost less accumulated depreciation and accumulated impairment losses. <p><i>(HKFRS for Private Entities 17.15)</i></p>	<ul style="list-style-type: none"> PPE should be carried at its cost less any accumulated depreciation and accumulated impairment losses. <p><i>(SME-FRS 3.10)</i></p>
Section 18 Intangible Assets other than Goodwill		
Recognition of costs incurred in development activities	<ul style="list-style-type: none"> An entity shall recognise expenditure incurred internally on an intangible item, including all expenditure for both research and development activities, as an expense when it is incurred 	<ul style="list-style-type: none"> An intangible asset arising from development should be recognised only if certain specified criteria are met.



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
	<p>unless it forms part of the cost of another asset that meets the recognition criteria in HKFRS for Private Entities.</p> <p style="text-align: right;"><i>(HKFRS for Private Entities 18.14)</i></p>	<i>(SME-FRS 4.7)</i>
Measurement after initial recognition	<ul style="list-style-type: none"> Intangible assets are measured at cost less any accumulated amortisation and any impairment losses. <p style="text-align: right;"><i>(HKFRS for Private Entities 18.18)</i></p>	<ul style="list-style-type: none"> Intangible assets should be carried at its cost less any accumulated amortisation and any accumulated impairment losses. <p style="text-align: right;"><i>(SME-FRS 4.13)</i></p>
Useful life and amortisation period	<ul style="list-style-type: none"> All intangible assets shall be considered to have a finite useful life. If an entity is unable to make a reliable estimate of the useful life of an intangible asset, the life shall be presumed to be 10 years. An entity shall allocate the depreciable amount of an intangible asset on a systematic basis over its useful life. <p style="text-align: right;"><i>(HKFRS for Private Entities 18.18 – 18.20)</i></p>	<ul style="list-style-type: none"> There is a rebuttable presumption that the useful life of an intangible asset will not exceed 20 years from the date when the asset is available for use. The depreciable amount of an intangible asset should be allocated on a systematic basis over the best estimate of its useful life. <p style="text-align: right;"><i>(SME-FRS 4.14)</i></p>
Section 19 Business Combinations and Goodwill		
Key recognition and measurement requirements	<ul style="list-style-type: none"> Business combinations are accounted for using the purchase method Contingent consideration is included in the cost if it is probable and can be measured reliably. Subsequent adjustments to the 	<ul style="list-style-type: none"> No corresponding section – SME-FRS is not designed for groups.



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
	<p>estimate are recognised against goodwill.</p> <ul style="list-style-type: none"> • Provisions for acquired contingent liabilities are recognised as part of the business combination if their fair value can be measured reliably. • Goodwill is measured at cost less accumulated amortisation and impairment loss. If a reliable estimate of the useful life of goodwill cannot be made, it is presumed to be 10 years. <p><i>(HKFRS for Private Entities 19.6, 19.12, 19.20 – 19.21, 19.23)</i></p>	
Section 20 Leases		
Financial statement of lessors	<ul style="list-style-type: none"> • The lessor records an asset leased under a finance lease at an amount equal to the net investment in the lease. This is the gross investment in the lease, discounted at the interest rate implicit in the lease. • The lessor records operating lease assets according to the nature of the assets and depreciates them on a basis consistent with the normal depreciation policy for similar owned assets. Rental income is recognised on a straight-line basis over the lease term unless either another systematic basis is more representative of the time pattern over which the benefit of the leased asset is diminished or the payments are structured to increase with expected general inflation. <p><i>(HKFRS for Private Entities 20.17 – 20.19, 20.24 - 20.29)</i></p>	<ul style="list-style-type: none"> • Does not address accounting for lessors. <i>(Note)</i>



	HKFRS for Private Entities as issued on 30 April 2010	HK SME-FRF & SME-FRS
Section 22 Liabilities and Equity		
Recognition and measurement	<ul style="list-style-type: none">• If shares are issued before the consideration is received, then the receivable is offset against equity. If the consideration is received before shares are issued, then equity is increased only if there is no obligation to repay the amount received. If shares are subscribed for but no consideration has been received, then there is no increase in equity.• When an entity declares a distribution of non-cash assets and has an obligation to distribute such assets to its owners, it recognises a liability, which is measured at the fair value of the assets to be distributed. At the end of each reporting period and at the date of settlement, the entity reviews and adjusts the carrying amount of the dividend payable to reflect changes in the fair value of the assets to be distributed, with any changes recognised in equity as adjustments to the amount of the distribution. <p><i>(HKFRS for Private Entities 22.7 – 22.12, 22.18)</i></p>	<ul style="list-style-type: none">• Does not specifically address in SME-FRS. <i>(Note)</i>



Section 23 Revenue		
Exchanges of goods or services	<ul style="list-style-type: none"> An entity shall not recognise revenue when goods or services are exchanged for goods or services that are of a similar nature and value, or when goods or services are exchanged for dissimilar goods or services but the transaction lacks commercial substance. <p style="text-align: right;"><i>(HKFRS for Private Entities 23.6)</i></p>	<ul style="list-style-type: none"> SME FRS 11 <i>Revenue</i> does not mention the accounting treatment for exchange of goods or services. <i>(Note)</i>.
Recognition of interest	<ul style="list-style-type: none"> Interest shall be recognised using the effective interest method. <p style="text-align: right;"><i>(HKFRS for Private Entities 23.29)</i></p>	<ul style="list-style-type: none"> Interest should be recognised on a time proportion basis. <p style="text-align: right;"><i>(SME-FRS 11.9)</i></p>
Section 24 Government Grants		
Recognition and measurement	<ul style="list-style-type: none"> A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable. A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met. Grants received before the revenue recognition criteria are satisfied are recognised as a liability. Government grants are measured at the fair value of the asset received or receivable. <p style="text-align: right;"><i>(HKFRS for Private Entities 24.4 – 22.5)</i></p>	<ul style="list-style-type: none"> Government grants should be recognised as income over the periods necessary to match them with related costs they are intended to compensate, on a systematic basis. <p style="text-align: right;"><i>(SME-FRS 12.2)</i></p>



Section 25 *Borrowing Costs*

Recognition

- All borrowing costs are recognised as an expense in profit or loss in the period in which they are incurred.

(HKFRS for Private Entities 25.2)

- Benchmark treatment - Expense model.
- Allowed alternative treatment - Capitalisation model.

(SME-FRS 13.2 – 13.5)

Section 26 *Share-based Payment*

Key measurement requirements

- Management recognises the goods or services received in a share-based payment transaction when it obtains the goods or as the services are received. Share-based payments granted to employees are recognised over the period of service that must be completed before they have become unconditionally entitled to the award.
- For initial measurement, equity-settled share-based payment transactions are measured by reference to the fair value of the goods and services received, unless the fair value cannot be estimated reliably, or they are transactions with employees. In the latter case, their value is measured, and the corresponding increase in equity, by reference to the fair value of the equity instruments granted. Cash-settled share-based payments are measured at the fair value of the liability.
- For subsequent measurement, equity-settled share-based payments are not re-measured except to incorporate the effect of non-market vesting conditions. The liability arising from cash-settled share-based payments is re-measured at

- No corresponding section (*Note*).



	<p>the end of each reporting period and at the date of settlement, with changes in fair value recognised in profit or loss.</p> <ul style="list-style-type: none">• Where obtaining fair value is impracticable, the directors use their judgment to apply the most appropriate valuation method to obtain fair value. <p><i>(HKFRS for Private Entities 26.3, 26.7 & 26.14)</i></p>	
Section 27 Impairment of Assets		
Impairment of assets other than inventories	<ul style="list-style-type: none">• An entity shall assess at each reporting date whether there is an indication of impairment. If impairment is not indicated, there is no need to calculate recoverable amount.• If recoverable amount is lower than the carrying amount, the difference is recognised in profit or loss as an impairment loss.• Recoverable amount is the higher of fair value less costs to sell and value in use (discounted basis).• An impairment loss recognised for a cash generating unit (CGU) is allocated first to goodwill within the CGU and then pro-rata to the other assets based on their carrying amounts.• Reversal of prior impairment losses is permitted in certain instances. <p><i>(HKFRS for Private Entities 27.5, 27.7, 27.11, 27.21, 27.28 & 27.29)</i></p>	<ul style="list-style-type: none">• An entity should estimate <u>the recoverable amount</u> of an asset at balance sheet date if there exists any indications of impairment.• The recoverable amount can be an asset's net selling price or future net cash flow (undiscounted basis) expected from the continued use of that asset.• Reversal of prior impairment losses is permitted subject to certain conditions. <p><i>(SME-FRS 9.1 & 9.7)</i></p>



Impairment of goodwill	<ul style="list-style-type: none">• Goodwill acquired in a business combination is allocated to each CGU expected to benefit from the synergies of the combination.• For purposes of impairment testing, the carrying amount of a CGU is grossed up to include goodwill attributable to non-controlling interests.• If goodwill cannot be allocated to CGUs on a non-arbitrary basis, it is tested for impairment by determining the recoverable amount of either the acquired entity if it has not been integrated, or the entire group of entities if it has been integrated.• Reversal of an impairment loss recognised for goodwill is not permitted. <p style="text-align: right;"><i>(HKFRS for Private Entities 27.24 – 27.28)</i></p>	<ul style="list-style-type: none">• No corresponding requirements – not applicable to group accounts.
Section 28 Employee Benefits		
Scope and general recognition principle	<ul style="list-style-type: none">• This section covers:<ul style="list-style-type: none">- Short-term benefits;- Post-employment benefits;- Other long-term benefits; and- Termination benefits.• The cost of providing employees benefits is recognised in the period in which employees become entitled to the benefits.• Short-term employee benefits:<ul style="list-style-type: none">- Recognised at the undiscounted amount of benefits	<ul style="list-style-type: none">• No corresponding section (<i>Note</i>) to address this specifically. Covered by the accrual principles.



	<p>expected to be paid in exchange for services;</p> <ul style="list-style-type: none">- Costs of accumulating compensated absences are recognised when employees render service that increases their entitlement to future compensated absences;- Costs of non-accumulating compensated absences are recognised when they occur; and- Profit-sharing and bonus payments are recognised only when the entity has a legal or constructive obligation to pay them and the costs can be reliably estimated. <ul style="list-style-type: none">• Post-employment benefits plans are classified as either defined contribution or defined benefit plans.• For defined contribution plans, expenses are recognised in the period in which the contribution is payable.• Defined benefit plans:<ul style="list-style-type: none">- Defined benefit liability is recognised as the net total of the present value obligations under the plans minus the fair value of plan assets at the reporting date;- The projected unit credit method is applied to measure the defined benefit obligation if it can be done without undue cost or effort. Otherwise, the calculation may be simplified by ignoring estimated future salary increases, future service of current employees and possible in-service mortality of current employees;- Curtailments or settlements that will result in changes to or	
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	<p>elimination of the defined benefit obligation and any resulting gain or loss should be recognised in profit or loss;</p> <ul style="list-style-type: none"> - Plan assets include assets held by a long-term employee benefit fund and qualifying insurance policies; - Actuarial gains and losses must be recognised immediately either in profit or loss or in other comprehensive income; and - All past service costs are recognised immediately in profit or loss. <ul style="list-style-type: none"> • Other long-term employee benefits are recognised and measured in the same way as post-employment benefits under a defined benefit plan. • Termination benefits are recognised when the entity is demonstrably committed either to terminate the employment of employees before normal retirement date or as a result of an offer to encourage voluntary redundancy. <p style="text-align: right;"><i>(HKFRS for Private Entities 28.1 – 28.44)</i></p>	
Section 29 Income Tax		
<p>Deferred tax – key recognition and measurement requirements</p>	<ul style="list-style-type: none"> • The recognition and measurement principles mirror those contained in the extant revision of HKAS 12 <i>Income Taxes</i>, while retaining the simplified disclosures contained in the IFRS for SMEs. 	<ul style="list-style-type: none"> • Deferred tax assets and liabilities should not be recognised – tax payable basis applied. <p style="text-align: right;"><i>(SME-FRS 14.4)</i></p>



	<ul style="list-style-type: none">The measurement of deferred tax liabilities associated with an investment property measured at fair value in accordance with Paragraph 16.7 shall not exceed the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the end of the reporting period. <p style="text-align: right;"><i>(HKFRS for Private Entities 29.51)</i></p>	
Section 30 Foreign Currency Translation		
Functional currency and presentation currency	<ul style="list-style-type: none">Each entity shall identify its functional currency.An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, the entity shall translate its results and financial position into the presentation currency. <p style="text-align: right;"><i>(HKFRS for Private Entities 30.2 & 30.17)</i></p>	<ul style="list-style-type: none">No distinction between functional currency and presentation currency.
Section 31 Hyperinflation		
Preparation and presentation of financial statements	<ul style="list-style-type: none">Where an entity's function currency is the currency of a hyperinflationary economy, the financial statements are stated in terms of the presentation currency at the end of the reporting period. The corresponding figures for the previous period are also stated in terms of the measuring unit current at the end of the reporting period. The gain or loss on the net monetary position is included in profit or loss and separately disclosed.	<ul style="list-style-type: none">No corresponding section - designed for companies operating in Hong Kong.



		<i>(HKFRS for Private Entities 31.3 – 31.4, 31.13)</i>
Section 34 Specialised Activities		
Agriculture	<ul style="list-style-type: none"> • Biological assets, for which fair value is readily determinable without undue cost or effort, are measured at fair value less costs to sell. Changes in fair value less costs to sell are recognised in profit or loss. • All other biological assets are measured at cost less accumulated depreciation and impairment loss. • At point of harvest, agricultural produce is measured at fair value less costs to sell and accounted for as inventories. <p style="text-align: center;"><i>(HKFRS for Private Entities 34.2 - 34.6, 34.8 – 34.9)</i></p>	<ul style="list-style-type: none"> • No corresponding section (<i>Note</i>).
Extractive industries	<ul style="list-style-type: none"> • Expenditure incurred for the acquisition or development of assets for use in extractive activities is accounted for in accordance with Section 17 on PPE and/or Section 18 on Intangible Assets. • Obligations for the dismantling or removal of items are accounted for in accordance with Section 17 on PPE and Section 21 on Provisions and Contingencies. <p style="text-align: center;"><i>(HKFRS for Private Entities 34.11)</i></p>	<ul style="list-style-type: none"> • No corresponding section (<i>Note</i>).
Service concession arrangements	<ul style="list-style-type: none"> • A financial asset is recognised to the extent that the operator has an unconditional contractual right to receive cash or 	<ul style="list-style-type: none"> • No corresponding section (<i>Note</i>).



	<p>another financial asset from the grantor for the construction services. The financial is measured at fair value and accounted for in accordance with Section 11 and Section 12 on Financial Instruments.</p> <ul style="list-style-type: none">• An intangible asset is recognised to the extent that the operator receives a right to charge users for the public service. The intangible asset is recognised at fair value and accounted for in accordance with Section 18 on Intangible Assets.• Revenue is recognised and measured in accordance with Section 23 on Revenue. <p style="text-align: right;"><i>(HKFRS for Private Entities 34.12 – 34.13)</i></p>	
Section 35 Transition to the HKFRS for Private Entities		
Exemptions on transition	<ul style="list-style-type: none">• Non-mandatory exemptions are granted on the areas below when preparing the first financial statements that conform to HKFRS for Private Entities:<ul style="list-style-type: none">- Business combinations- Shared-based payment transactions- Fair value or revaluation as deemed cost- Cumulative translation differences- Separate financial statements- Compound financial instruments- Deferred income taxes- Service concession arrangements	<ul style="list-style-type: none">• No exemption is granted. Entity is required to follow the transition provisions set out in SME-FRF, paragraph 27, which effectively dealt with as a change in accounting policy set out in section 2 of <i>SME-FRS Accounting Policies, Changes in Accounting Estimates and Errors</i>.



	<ul style="list-style-type: none">- Extractive activities- Arrangements containing a lease- Decommissioning liabilities included in the cost of property, plant and equipment <ul style="list-style-type: none">• An entity shall not retrospectively change the accounting that it followed under previously financial reporting framework for any of the following transactions:<ul style="list-style-type: none">- Derecognition of financial assets and financial liabilities- Hedge accounting- Accounting estimates- Discontinued operations- Measuring non-controlling interests <p style="text-align: right;"><i>(HKFRS for Private Entities 35.9 – 35.10)</i></p>	
Disclosures	<ul style="list-style-type: none">• An entity shall explain how the transition from its previous financial reporting framework to HKFRS for Private Entities affected its reported financial position, financial performance and cash flows.• The first financial statements prepared using HKFRS for Private Entities shall include:<ul style="list-style-type: none">- A description of the nature of each change in accounting policy;- reconciliations of its equity reported under its previous	<ul style="list-style-type: none">• Follow the requirements in Section 2 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> in respect of changes in accounting policies. <p style="text-align: right;"><i>(SME-FRS 2.9)</i></p>



	<p>financial reporting framework to its equity under HKFRS for Private Entities for both (a) the date of transition and (b) the end of the latest period presented in the entity's most recent annual financial statements under its previous financial reporting framework; and</p> <ul style="list-style-type: none">- a reconciliation of the profit or loss reported under its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss under this standard for the same period. <p><i>(HKFRS for Private Entities 35.12 – 35.13)</i></p>	
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Note: In the event that the SME-FRS does not cover an event or transaction undertaken by an entity, management may consider the SME-FRF for guidance on developing an appropriate accounting policy, consistent with the historical cost convention, for that particular event or transaction. (SME-FRS 1.2)

13 September 2010