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

MEMBERS' HANDBOOK

Update No. 48

(Issued January 2008)

Document Reference and Title	***Instructions***	***Explanations***
VOLUME II		
Contents of Volume II	Insert the revised pages i - iv. Discard the replaced pages i - iv.	Revised contents pages

The amendments to the following Interpretations, Basis for Conclusions and Implementation Guidance are set out in the Appendix of the Interpretations that created these amendments. The Institute has taken this opportunity to update the amendments in the relevant affected Interpretations, Basis for Conclusions and Implementation Guidance, for greater clarity.

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

HK(IFRIC) Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	Insert the revised pages 2, 6-9, 9A-9B and 21-22. Discard the replaced pages 2 and 6-9.	Amendments due to - HKAS 23 (Revised) - HKAS 1 (Revised)
HK(IFRIC) Interpretation 2 *Members' Shares in Co-operative Entities and Similar Instruments*	Insert the revised page 3. Discard the replaced page 3.	Amendments due to - HKFRS 7
HK(IFRIC) Interpretation 4 *Determining whether an Arrangement contains a Lease*	Insert the revised pages 3, 6-8, 13 and 13A. Discard the replaced pages 3, 6-8 and 13.	Amendments due to - HK(IFRIC)-Int 12
HK(IFRIC) Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*	Insert the revised pages 1, 2, 6, 8 and 12. Discard the replaced pages 1, 2, 6 and 8	Amendments due to - HKFRS 7 - HKAS 1 (Revised)

HK(IFRIC) Interpretation 7 *Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies*	Insert the revised pages 2, 4A, 9 and 15. Discard the replaced pages 2 and 9.	Amendments due to - HKAS 1 (Revised)
HK(IFRIC) Interpretation 10 *Interim Financial Reporting and Impairment*	Insert the revised pages 2 and 4A. Discard the replaced page 2	Amendments due to - HKAS 1 (Revised)
HK(IFRIC) Interpretation 12 *Service Concession Arrangements*	Insert the revised pages 2, 10-11, 11A, 12, 24A and 39. Discard the replaced pages 2 and 10-12.	Amendments due to - HKAS 23 (Revised) - HKAS 1 (Revised)
HK(IFRIC) Interpretation 14 *HKAS 19 —The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	Insert the revised pages 2 and 6A. Discard the replaced page 2	Amendments due to - HKAS 1 (Revised)

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

HK(SIC) Interpretation 10 *Government Assistance – No Specific Relation to Operating Activities*	Insert the revised pages 1-3. Discard the replaced pages 1-2.	Amendments due to - HKAS 1 (Revised)
HK(SIC) Interpretation 12 *Consolidation – Special Purpose Entities*	Insert the revised pages 1-3A. Discard the replaced pages 1-3.	Amendments due to - Amendment to HK(SIC)-Int 12
Amendment to HK(SIC) Interpretation 12 *Scope of HK(SIC)- Int 12 Consolidation – Special Purpose Entities*	Discard the existing Amendment	Effects are already shown above
HK(SIC) Interpretation 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers	Insert the revised pages 2-3. Discard the replaced page 2.	Amendments due to - HKAS 1 (Revised)
HK(SIC) Interpretation 15 *Operating Leases – Incentives*	Insert the revised pages 1-2 and 4. Discard the replaced pages 1-2.	Amendments due to - HKAS 1 (Revised)
HK(SIC) Interpretation 25 *Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders*	Insert the revised pages 1-4. Discard the replaced pages 1-2.	Amendments due to - HKAS 1 (Revised)
HK(SIC) Interpretation 29 *Service Concession Arrangements: Disclosures*	Insert the revised pages 1-4. Discard the replaced pages 1-3.	Amendments due to - HK(IFRIC)-Int 12 - HKAS 1 (Revised)

HK(SIC) Interpretation 32 *Intangible Assets – Web Site Costs*	Insert the revised pages 3-7. Discard the replaced pages 3-5.	Amendments due to - HKFRS 3 - HKAS 1 (Revised)

Note:

* *With effect from 24 May 2005, HKFRS Interpretations (HKFRS-Int) are renamed as Hong Kong (IFRIC) Interpretations (HK(IFRIC)-Int). The numbering of these Interpretations are unaffected by the changes in names.*

** *With effect from 24 May 2005, HKAS Interpretations (HKAS-Int) are renamed as Hong Kong(SIC) Interpretations (HK(SIC)-Int). The numbering of these Interpretations are unaffected by the changes in names.*

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

MEMBERS' HANDBOOK
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(Updated to January 2008)

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*Note: * With effect from 24 May 2005, all Interpretations that are developed locally by the Institute are named Hong Kong Interpretations.*

Contents

HK(IFRIC) Interpretation 1
Changes in Existing Decommissioning, Restoration and Similar Liabilities

HK(IFRIC) Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* (HK(IFRIC)-Int 1) is set out in paragraphs 1-10 and the Appendix. HK(IFRIC)-Int 1 is accompanied by Illustrative Examples and a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

Appendix

Amendments to HKFRS 1 *First-time Adoption of International Financial Reporting Standards*

The amendments in this appendix shall be applied for annual periods beginning on or after 1 September 2004. If an entity applies this Interpretation for an earlier period, these amendments shall be applied for that earlier period.

* * *

The amendments contained in this appendix when this Interpretation was issued have been incorporated into the relevant Standards.

~~A1 HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* and its accompanying documents are amended as described below.~~

~~In paragraph 12 of the HKFRS, the reference to paragraphs 13-25D is changed to 13-25E.~~

~~Subparagraphs 13(h) and (i) of the HKFRS are amended, and subparagraph (j) is inserted, to read as follows:~~

~~(h) share-based payment transactions (paragraphs 25B and 25C);~~

~~(i) insurance contracts (paragraph 25D); and~~

~~(j) decommissioning liabilities included in the cost of property, plant and equipment (paragraph 25E).~~

~~In the HKFRS, a new heading and paragraph 25E are inserted, as follows:~~

~~Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment~~

~~25E HKFRS-Int 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates; the adjusted depreciable amount of the asset is then depreciated prospectively over its remaining useful life. A first-time adopter need not comply with these requirements for changes in such liabilities that occurred before the date of transition to HKFRSs. If a first-time adopter uses this exemption, it shall:~~

~~(a) measure the liability as at the date of transition to HKFRSs in accordance with HKAS 37;~~

~~(b) to the extent that the liability is within the scope of HKFRS-Int 1, estimate the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and~~

~~(c)calculate the accumulated depreciation on that amount, as at the date of transition to HKFRSs, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity under HKFRSs.~~

~~In the Basis for Conclusions, a new heading and paragraph BC63C are inserted, as follows:~~

~~Changes in existing decommissioning, restoration and similar liabilities included in the cost of property, plant and equipment~~

~~BC63C IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* requires specified changes in decommissioning, restoration and similar liabilities to be added to, or deducted from, the cost of the assets to which they relate, and the adjusted depreciable amount to be depreciated prospectively over the remaining useful life of those assets. Retrospective application of this requirement at the date of transition would require an entity to construct a historical record of all such adjustments that would have been made in the past. In many cases this will not be practicable. The Board agreed that, as an alternative to complying with this requirement, an entity should be permitted to include in the depreciated cost of the asset, at the date of transition to IFRSs, an amount calculated by discounting the liability at that date back to, and depreciating it from, when the liability was first incurred.~~

~~In the Guidance on Implementing HKFRS 1, the amendments described below are made.~~

~~Paragraph IG13 is amended to read as follows:~~

~~IG13 In some cases, the construction or commissioning of an asset results in an obligation for an entity to dismantle or remove the asset and restore the site on which the asset stands. An entity applies HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in recognising and measuring any resulting provision. The entity applies HKAS 16 in determining the resulting amount included in the cost of the asset, before depreciation and impairment losses. Items such as depreciation and, when applicable, impairment losses cause differences between the carrying amount of the liability and the amount included in the carrying amount of the asset. An entity accounts for changes in such liabilities in accordance with HKFRS-Int 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. However, paragraph 25E of HKFRS 1 provides an exemption for changes that occurred before the date of transition to HKFRSs, and prescribes an alternative treatment where the exemption is used. An example of the first-time adoption of HKFRS-Int 1, which illustrates the use of this exemption, is given at paragraphs IG201-IG203.~~

~~The following headings and paragraphs are added at the end of the Guidance:~~

~~HKFRS Interpretations~~

~~HKFRS-Int 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*~~

~~IG201 HKAS 16 requires the cost of an item of property, plant and equipment to include the initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. HKAS 37 requires the liability, both initially and subsequently, to be measured at the amount required to settle the present obligation at the balance sheet date, reflecting a current market-based discount rate.~~

~~IG202 HKFRS-Int 1 requires that, subject to specified conditions, changes in an existing decommissioning, restoration or similar liability are added to or deducted from the cost of the related asset. The resulting depreciable amount of the asset is depreciated over its useful life, and the periodic unwinding of the discount on the liability is recognised in profit or loss as it occurs.~~

~~IG203 Paragraph 25E of HKFRS 1 provides a transitional exemption. Instead of retrospectively accounting for changes in this way, entities can include in the depreciated cost of the asset an amount calculated by discounting the liability at the date of transition to HKFRSs back to, and depreciating it from, when the liability was first incurred. IG Example 201 illustrates the effect of applying this exemption, assuming that the entity accounts for its property, plant and equipment using the cost model.~~

~~**IG Example 201: Changes in Existing Decommissioning, Restoration and Similar Liabilities**~~

~~BACKGROUND~~

~~An entity's first HKFRS financial statements have a reporting date of 31 December 2005 and include comparative information for 2004 only. Its date of transition to HKFRSs is therefore 1 January 2004.~~

~~The entity acquired an energy plant on 1 January 2001, with a life of 40 years. As at the date of transition to HKFRSs, the entity estimates the decommissioning cost in 37 years' time to be 470, and estimates that the appropriate risk-adjusted discount rate for the liability is 5 per cent. It judges that the appropriate discount rate has not changed since 1 January 2001.~~

~~APPLICATION OF REQUIREMENTS~~

~~The decommissioning liability recognised at the transition date is 77 (470 discounted for 37 years at 5 per cent).~~

~~Discounting this liability back for a further three years to 1 January 2001 gives an estimated liability at acquisition, to be included in the cost of the asset, of 67. Accumulated depreciation on the asset is 67 x 3/40 = 5.~~

~~The amounts recognised in the opening HKFRS balance sheet on the date of transition to HKFRSs (1 January 2004) are, in summary:~~

~~Decommissioning cost included in cost of plant~~	~~67~~
~~Accumulated depreciation~~	~~(5)~~
~~Decommissioning liability~~	~~(77)~~
~~Net assets/retained earnings~~	~~(15)~~

Appendix

Amendments resulting from other HKFRSs

The following sets out amendments required for this Interpretation resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Interpretation and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 23 Borrowing Costs (issued in June 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraph 8 is amended as follows:

8 The periodic unwinding of the discount shall be recognised in profit or loss as a finance cost as it occurs. ~~The allowed alternative treatment of c~~Capitalisation under HKAS 23 is not permitted.

HKAS 1 *Presentation of Financial Statement*s (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

In the '**References**' section, 'HKAS 1 *Presentation of Financial Statements* (as revised in 2004) is amended to 'HKAS 1 *Presentation of Financial Statements* (as revised in 2007)'.

Paragraph 6 is amended as follows:

6 If the related asset is measured using the revaluation model:

(a) changes in the liability … so that:

(i) a decrease in the liability shall (subject to (b)) be ~~credited directly to~~ recognised in other comprehensive income and increase the revaluation surplus within equity, … ;

(ii) an increase in the liability shall be recognised in profit or loss, except that it shall be ~~debited directly to~~ recognised in other comprehensive income and reduce the revaluation surplus within equity to the extent ...

(b) ...

(c) a change ... Any such revaluation shall be taken into account in determining the amounts to be ~~taken to profit or loss and equity~~ recognised in profit or loss or in other comprehensive income under (a). If a revaluation is necessary, all assets of that class shall be revalued.

(d) HKAS 1 requires disclosure ~~on the face of~~ in the statement of ~~changes in equity~~ comprehensive income of each ~~item~~ component of other comprehensive income or expense ~~that is recognised directly in equity~~. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability shall be separately identified and disclosed as such.

Paragraph 9A is added as follows:

9A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 6. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

Appendix

Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 23 *Borrowing Costs* (issued in June 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraph BC26 is footnoted as follows:

> In March 2007, IAS 23 was revised to require the previously allowed alternative treatment of capitalisation. Capitalisation of borrowing costs for a qualifying asset becomes the only accounting treatment. That revision does not affect the reasoning set out in this Basis for Conclusions.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

The rubric preceding the Introduction and paragraphs BC3, BC25 and BC29 are amended as follows:

> *This Basis for Conclusions accompanies, but is not part of, HK(IFRIC)-Int 1.*
>
> <u>*The original text has been marked up to reflect the revision of HKAS 1* Presentation of Financial Statements *in 2007: new text is underlined and deleted text is struck through.*</u>

BC3 IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires that the measurement of the liability, both initially and subsequently, should be the estimated expenditure required to settle the present obligation at the ~~balance sheet date~~ <u>end of the reporting period</u> and should reflect a current market-based discount rate. It requires provisions to be reviewed at ~~each balance sheet date~~ <u>the end of each reporting period</u> and adjusted to reflect the current best estimate. Hence, ...

BC25 Several responses to the draft Interpretation sought clarification of how it should be applied to revalued assets. The IFRIC noted that:

(a) if the entity chooses the revaluation model, IAS 16 requires the valuation to be kept sufficiently up to date that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.<u>*</u> This …

(b) … Under the revaluation model set out in IAS 16, cumulative revaluation surpluses for an asset are accounted for in equity,[‡] and cumulative revaluation deficits are accounted for in profit or loss. The IFRIC …

* IAS 1 *Presentation of Financial Statements* (revised 2007) replaced the term 'balance sheet date' with 'end of the reporting period'.

† As a consequence of the revision of IAS 1 in 2007 the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus.

BC29 However, … These changes reflect an event of significance to users, and the IFRIC agreed that they should be given prominence by being separately disclosed and described as such in the statement of changes in equity.*

* As a consequence of the revision of IAS 1 *Presentation of Financial Statements* in 2007 such changes are presented in the statement of comprehensive income.

References

- HKAS 32 *Financial Instruments: Disclosure and Presentation*[*]
- HKAS 39 *Financial Instruments: Recognition and Measurement*

Background

1 Co-operatives and other similar entities are formed by groups of persons to meet common economic or social needs. National laws typically define a co-operative as a society endeavouring to promote its members' economic advancement by way of a joint business operation (the principle of self-help). Members' interests in a co-operative are often characterised as members' shares, units or the like, and are referred to below as 'members' shares'.

2 HKAS 32 establishes principles for the classification of financial instruments as financial liabilities or equity. In particular, those principles apply to the classification of puttable instruments that allow the holder to put those instruments to the issuer for cash or another financial instrument. The application of those principles to members' shares in co-operative entities and similar instruments is difficult. Guidance has been requested on understanding how the principles in HKAS 32 apply to members' shares and similar instruments that have certain features, and the circumstances in which those features affect the classification as liabilities or equity.

Scope

3 This Interpretation applies to financial instruments within the scope of HKAS 32, including financial instruments issued to members of co-operative entities that evidence the members' ownership interest in the entity. This Interpretation does not apply to financial instruments that will or may be settled in the entity's own equity instruments.

Issue

4 Many financial instruments, including members' shares, have characteristics of equity, including voting rights and rights to participate in dividend distributions. Some financial instruments give the holder the right to request redemption for cash or another financial asset, but may include or be subject to limits on whether the financial instruments will be redeemed. How should those redemption terms be evaluated in determining whether the financial instruments should be classified as liabilities or equity?

Conclusions

5 The contractual right of the holder of a financial instrument (including members' shares in co-operative entities) to request redemption does not, in itself, require that financial instrument to be classified as a financial liability. Rather, the entity must consider all of the terms and conditions of the financial instrument in determining its classification as a financial liability or equity. Those terms and conditions include relevant local laws, regulations and the entity's governing charter in effect at the date of classification, but not expected future amendments to those laws, regulations or charter.

6 Members' shares that would be classified as equity if the members did not have a right to request redemption are equity if either of the conditions described in paragraphs 7 and 8 is present. Demand deposits, including current accounts, deposit accounts and similar contracts that arise when members act as customers are financial liabilities of the entity.

7 Members' shares are equity if the entity has an unconditional right to refuse redemption of the members' shares.

8 Local law, regulation or the entity's governing charter can impose various types of prohibitions on the redemption of members' shares, eg unconditional prohibitions or prohibitions based on liquidity criteria. If redemption is unconditionally prohibited by local law, regulation or the entity's governing charter, members' shares are equity. However, provisions in local law, regulation or the entity's governing charter that prohibit redemption only if conditions—such as liquidity constraints—are met (or are not met) do not result in members' shares being equity.

[*] HKAS 32 was amended as HKAS 32 *Financial Instruments: Presentation* for annual periods beginning on or after 1 January 2007.

References[ϕ]

- HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- HKAS 16 *Property, Plant and Equipment*
- HKAS 17 *Leases*
- HKAS 38 *Intangible Assets*

Background

1 An entity may enter into an arrangement, comprising a transaction or a series of related transactions, that does not take the legal form of a lease but conveys a right to use an asset (eg an item of property, plant or equipment) in return for a payment or series of payments. Examples of arrangements in which one entity (the supplier) may convey such a right to use an asset to another entity (the purchaser), often together with related services, include:

- outsourcing arrangements (eg the outsourcing of the data processing functions of an entity).
- arrangements in the telecommunications industry, in which suppliers of network capacity enter into contracts to provide purchasers with rights to capacity.
- take-or-pay and similar contracts, in which purchasers must make specified payments regardless of whether they take delivery of the contracted products or services (eg a take-or-pay contract to acquire substantially all of the output of a supplier's power generator).

2 This Interpretation provides guidance for determining whether such arrangements are, or contain, leases that should be accounted for in accordance with HKAS 17. It does not provide guidance for determining how such a lease should be classified under that Standard.

3 In some arrangements, the underlying asset that is the subject of the lease is a portion of a larger asset. This Interpretation does not address how to determine when a portion of a larger asset is itself the underlying asset for the purposes of applying HKAS 17. Nevertheless, arrangements in which the underlying asset would represent a unit of account in either HKAS 16 or HKAS 38 are within the scope of this Interpretation.

Scope

4 This Interpretation does not apply to arrangements that:

(a) are, or contain, leases excluded from the scope of HKAS 17~~.~~; or

(b) are public-to-private service concession arrangements within the scope of HK(IFRIC)-Int 12 Service Concession Arrangements.

Issues

5 The issues addressed in this Interpretation are:

(a) how to determine whether an arrangement is, or contains, a lease as defined in HKAS 17;

[ϕ] With effect from 1 January 2005, all the existing Statements of Standard Accounting Practice (SSAPs) and Interpretations for which there are equivalent International Accounting Standards (IAS) and SIC Interpretations will be renamed as Hong Kong Accounting Standards (HKASs) and Hong Kong (SIC) Interpretations (HK(SIC)-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.hkicpa.org.hk/professionaltechnical/accounting/rm/memorandum.pdf. If an entity applies this Interpretation for a period beginning before 1 January 2005, the entity shall follow the requirements of SSAPs effective for that period, unless the entity is applying the relevant HKASs for that earlier period. Accordingly, references to the HKASs in this Interpretation should be read as references to the related superseded SSAPs as recorded in the table of concordance set out in the HKICPA website: http://www.hkicpa.org.hk/professionaltechnical/accounting/dueprocess/concordance.pdf, where appropriate.

(i) disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements, and

(ii) state that the disclosed payments also include payments for non-lease elements in the arrangement.

Effective date

16 An entity shall apply this Interpretation for annual periods beginning on or after 1 January 2006. Earlier application is encouraged. If an entity applies this Interpretation for a period beginning before 1 January 2006, it shall disclose that fact.

16A An entity shall apply the amendment in paragraph 4(b) for annual periods beginning on or after 1 January 2008. If an entity applies HK(IFRIC)-Int 12 for an earlier period, the amendment shall be applied for that earlier period.

Transition

17. HKAS 8 specifies how an entity applies a change in accounting policy resulting from the initial application of an Interpretation. An entity is not required to comply with those requirements when first applying this Interpretation. If an entity uses this exemption, it shall apply paragraphs 6-9 of this Interpretation to arrangements existing at the start of the earliest period for which comparative information under HKFRSs is presented on the basis of facts and circumstances existing at the start of that period.

Appendix

Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies this Interpretation for an earlier period, these amendments shall be applied for that earlier period.

* * *

The amendments contained in this appendix when this Interpretation was issued have been incorporated into the relevant Standards.

~~A1 HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* and its accompanying documents are amended as described below.~~

~~In paragraph 12, the reference to paragraphs 13-25E is changed to 13-25F.~~

~~In paragraph 13, subparagraphs (i) and (j) are amended, and subparagraph (k) inserted, to read as follows:~~

~~(i) insurance contracts (paragraph 25D);~~

~~(j) decommissioning liabilities included in the cost of property, plant and equipment (paragraph 25E); and~~

~~(k) leases (paragraph 25F).~~

~~After paragraph 25E a new heading and paragraph 25F are inserted as follows:~~

~~Leases~~

~~HKFRS-Int 4 *Determining whether an Arrangement contains a Lease*~~

~~25F A first-time adopter may apply the transitional provisions in HKFRS-Int 4 *Determining whether an Arrangement contains a Lease*. Therefore, a first-time adopter may determine whether an arrangement existing at the date of transition to HKFRSs contains a lease on the basis of facts and circumstances existing at that date.~~

~~In the Basis for Conclusions, after paragraph BC63C a new heading and paragraph BC63D are inserted, as follows:~~

~~Leases~~

~~BC63D HKFRS-Int 4 *Determining whether an Arrangement contains a Lease* contains transitional provisions because the HKFRS acknowledged the practical difficulties raised by full retrospective application of the Interpretation, in particular the difficulty of going back potentially many years and making a meaningful assessment of whether the arrangement satisfied the criteria at that time. The Institute decided to treat first-time adopters in the same way as entities that already apply HKFRSs.~~

~~In the Guidance on implementing HKFRS 1, after IG Example 201 the following heading, paragraphs and example are added:~~

~~HKFRS-Int 4 *Determining whether an Arrangement contains a Lease*~~

~~IG204 HKFRS-Int 4 specifies criteria for determining, at the inception of an arrangement, whether the arrangement contains a lease. It also specifies when an arrangement should be reassessed subsequently.~~

~~IG205 Paragraphs 25F of HKFRS 1 provides a transitional exemption. Instead of determining retrospectively whether an arrangement contains a lease at the inception of the arrangement and subsequently reassessing that arrangement as required in the periods before transition to HKFRSs, entities may determine whether arrangements in existence on the date of transition to HKFRSs contain leases by applying paragraphs 6-9 of HKFRS-Int 4 to those arrangements on the basis of facts and circumstances existing on that date.~~

~~IG Example 202: Determining whether an Arrangement contains a Lease~~

~~BACKGROUND~~

~~An entity's first HKFRS financial statements have a reporting date of 31 December 2007 and include comparative information for 2006 only. Its date of transition to HKFRSs is therefore 1 January 2006.~~

~~On 1 January 1995, the entity entered into a take-or-pay arrangement to supply gas. On 1 January 2000, there was a change in the contractual terms of the arrangement.~~

~~APPLICATION OF REQUIREMENTS~~

~~On 1 January 2006, the entity may determine whether the arrangement contains a lease by applying the criteria in paragraphs 6-9 of HKFRS-Int 4 on the basis of facts and circumstances existing on that date. Alternatively, the entity applies those criteria on the basis of facts and circumstances existing on 1 January 1995 and reassesses the arrangement on 1 January 2000. If the arrangement is determined to contain a lease, the entity follows the guidance in paragraphs IG14-IG16.~~

arrangement would be for a product with a quoted market price available in an active market and would therefore be unlikely to depend upon the use of a specifically identified asset.

BC14A The IFRIC considered whether the scope of the Interpretation might overlap with IFRIC 12, which was developed from draft Interpretations D12-D14. In particular it noted the views expressed by some respondents to the proposals that the contractual terms of some public-to-private service concession arrangements would be regarded as leases under IFRIC 4 and would also be regarded as meeting the scope criterion of D12-D14. The IFRIC did not regard the choice between accounting treatments as appropriate because it could lead to different accounting treatments for contracts that have similar economic effects. The IFRIC therefore amended IFRIC 4 to specify that if a public-to-private service concession arrangement met the scope requirements of IFRIC 12 it would not be within the scope of IFRIC 4.

Consensus (paragraphs 6-15)

Criteria for determining whether an arrangement contains a lease (paragraphs 6-9)

BC15 In D3 the IFRIC proposed that three criteria would all need to be satisfied for an arrangement to be, or contain, a lease:

(a) The arrangement depends upon a specific item or items (the item). The item need not be explicitly identified by the contractual provisions of the arrangement. Rather it may be implicitly identified because it is not economically feasible or practical for the supplier to fulfil the arrangement by providing use of alternative items.

(b) The arrangement conveys a right to use the item for a specific period of time such that the purchaser is able to exclude others from using the item.

(c) Payments under the arrangement are made for the time that the item is made available for use rather than for actual use of the item.

BC16 D3 also proposed that arrangements in which there is only a remote possibility that parties other than the purchaser will take more than an insignificant amount of the output produced by an item would meet the second of the criteria above.

BC17 In its Basis for Conclusions on D3, the IFRIC drew attention to the similarities between its Interpretation and Issue No. 01-8 *Determining Whether an Arrangement Contains a Lease* published by the US Emerging Issues Task Force (EITF) in May 2003. The IFRIC concluded that '[a]lthough the wording of Issue 01-8 and the draft Interpretation differ, …a similar assessment of whether an arrangement contains a lease is likely under both interpretations.'

BC18 Some respondents disagreed with the IFRIC's conclusion and suggested that the differences between the two interpretations were, in fact, significant. The IFRIC, however, maintained its original conclusion. In particular, it noted that both it and the EITF had concluded that a right of use can be conveyed in arrangements in which purchasers have rights to acquire the output that will be produced by an asset, regardless of any right or ability physically to operate or control access to that asset. Accordingly, many take-or-pay (and similar contracts) would have been similarly assessed under the two interpretations.

BC19 Nonetheless, the IFRIC agreed that some arrangements would be regarded as leases under Issue 01-8 but not under D3. The IFRIC concluded that there were two main reasons for this. First, the effect of the third criterion in D3 ('payments under the arrangement are made for the time that the item is made available for use rather than for actual use of the item') was that a purchaser would always be required to assume some pricing risk in an arrangement for there to be a lease. This is not the case under Issue 01-8. Secondly, the second criterion in D3 ('the arrangement conveys a right to use the item …such that the purchaser is able to exclude others from using the item') suggested that a right of use is conveyed in an arrangement for the output from an asset only when the purchaser is taking *substantially all* of the output from a specific asset. Under Issue 01-8, a right of use is also conveyed if the purchaser controls or operates the underlying specific asset while taking more than a *minor amount* of the output from an asset.

BC20 The IFRIC noted that the definition of a lease in IAS 17 is similar to its definition in the US standard SFAS 13 *Accounting for Leases*. Given this, the IFRIC concluded that there was no compelling reason for different assessments of whether an arrangement contains a lease under IFRSs and US GAAP. Furthermore, the IFRIC was sympathetic to the practical difficulties highlighted by some respondents that would arise in cases when an agreement would need to be assessed against two similar, but different, sets of criteria. Therefore, the IFRIC decided that it should seek to eliminate the differences between the approach in D3 and Issue 01-8 for determining whether an arrangement contains a lease. The IFRIC concluded that the most effective way of achieving this objective would be to modify its criteria to conform them more fully to the approach in Issue 01-8.

HK(IFRIC)-Int 5
Issued February 2005

Effective for annual periods
beginning on or after 1 January 2006

HK(IFRIC) Interpretation 5

Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

~~incorporating an Amendment to HKAS 39~~ ~~*Financial Instruments: Recognition and Measurement*~~

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

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HK(IFRIC) Interpretation 5
Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

incorporating an Amendment to HKAS 39
Financial Instruments: Recognition and Measurement

HK(IFRIC) Interpretation 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (HK(IFRIC)-Int 5) is set out in paragraphs 1-15 and the Appendix. HK(IFRC)-Int 5 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

Appendix

Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement*

The amendment in this appendix shall be applied for annual periods beginning on or after 1 January 2006. If an entity applies this Interpretation for an earlier period, the amendment shall be applied for that earlier period.

* * *

The amendments contained in this appendix when this Interpretation was issued have been incorporated into the relevant Standards.

~~A1 In paragraph 2 of HKAS 39 *Financial Instruments: Recognition and Measurement* subparagraph 2(j) shall be added as follows:~~

~~***2.This Standard shall be applied by all entities to all types of financial instruments except:***~~

~~***...***~~

~~***(j) rights to payments to reimburse the entity for expenditure it is required to make to settle a liability that it recognises as a provision in accordance with HKAS 37* Provisions, Contingent Liabilities and Contingent Assets*, or for which, in an earlier period, it recognised a provision in accordance with HKAS 37.***~~

Basis for Consensus

Accounting for an interest in a fund (paragraphs 7-9)

BC7 The IFRIC concluded that the contributor should recognise a liability unless the contributor is not liable to pay decommissioning costs even if the fund fails to pay. This is because the contributor remains liable for the decommissioning costs. Additionally, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* provides that:

(a) when an entity remains liable for expenditure, a provision should be recognised even where reimbursement is available; and

(b) if the reimbursement is virtually certain to be received when the obligation is settled, then it should be treated as a separate asset.

BC8 In concluding that the contributor should recognise separately its liability to pay decommissioning costs and its interest in the fund, the IFRIC also noted the following:

(a) There is no legally enforceable right to set off the rights under the decommissioning fund against the decommissioning liabilities.

Also, given that the main objective is reimbursement, it is likely that settlement will not be net or simultaneous. Accordingly, treating these rights and liabilities as analogous to financial assets and financial liabilities would not result in offset because the offset criteria in IAS 32 *Financial Instruments: Disclosure and Presentation*[†] are not met.

(b) Treating the decommissioning obligation as analogous to a financial liability would not result in derecognition through extinguishment. If the fund does not assume the obligation for decommissioning, the criteria in IAS 39 for derecognition of financial liabilities through extinguishment are not met. At best, the fund acts like an in-substance defeasance that does not qualify for derecognition of the liability.

(c) It would not be appropriate to treat decommissioning funds as analogous to pension funds, which are presented net of the related liability. This is because, in allowing a net presentation for pension plans in IAS 19 *Employee Benefits,* the International Accounting Standards Board's predecessor organisation, IASC, stated that it believed the situation is 'unique to employee benefit plans and [it did] not intend to permit this net presentation for other liabilities if the conditions in IAS 32 and IAS 39 are not met' (IAS 19, Basis for Conclusions paragraph 68I).

BC9 As to the accounting for the contributor's interest in the fund, the IFRIC noted that some interests in funds would be within the scope of IAS 27, IAS 28, IAS 31 or SIC-12. As noted in paragraph BC2, the IFRIC concluded that, in such cases, the normal requirements of those Standards would apply and there is no need for interpretative guidance.

BC10 Otherwise, the IFRIC concluded that the contributor has an asset for its right to receive amounts from the fund.

The right to receive reimbursement from a fund and amendment to the scope of IAS 39

BC11 The IFRIC noted that under existing IFRSs, there are two forms of rights to reimbursement that would be accounted for differently:

(a) A contractual right to receive reimbursement in the form of cash. This meets the definition of a financial asset and is within the scope of IAS 39. Such a financial asset would be classified as an available-for-sale financial asset (unless accounted for using the fair value option) because it does not meet the definitions of a financial asset held for trading, a held-to-maturity investment or a loan or receivable.[*]

[†] In August 2005, IAS 32 has amended as IAS 32 Financial Instruments: *Presentation*

[*] An interest in a decommissioning fund would not meet the definition of held for trading because it is not acquired or incurred principally for the purpose of selling or repurchasing it in the near term, nor of a held-to-maturity investment because it does not have fixed or determinable maturity. In addition, an interest in a fund is excluded from the definition of loans and receivables in IAS 39 since it is 'an interest acquired in a pool of assets that are not loans and receivables'.

Appendix
Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

The rubric preceding the Introduction and paragraph BC16 are amended as follows:

This Basis for Conclusions accompanies, but is not part of, HK(IFRIC)-Int 5.

The original text has been marked up to reflect the revision of HKAS 1 Presentation of Financial Statements *in 2007: new text is underlined and deleted text is struck through*.

BC16 The IFRIC noted that the right to reimbursement relates to a decommissioning obligation for which a provision would be recognised and measured in accordance with IAS 37. Paragraph 36 of IAS 37 requires such provisions to be measured at 'the best estimate of the expenditure required to settle the present obligation at the ~~balance sheet date~~ end of the reporting period'. The IFRIC …

Contents

Hong Kong (IFRIC) Interpretation 7
Applying the Restatement Approach under
HKAS 29 *Financial Reporting in Hyperinflationary Economies*

Hong Kong (IFRIC) Interpretation 7 *Applying the Restatement Approach under HKAS 29* Financial Reporting in Hyperinflationary Economies (HK(IFRIC)-Int 7) is set out in paragraphs 1-6. HK(IFRIC)-Int 7 is accompanied by Illustrative Examples and a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

Appendix A

Amendments resulting from other HKFRSs

The following sets out amendments required for this Interpretation resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Interpretation and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) - effective for annual periods beginning on or after 1 January 2009

In paragraph 3, 'closing balance sheet date of the reporting period' is amended to 'end of the reporting period'.

In paragraph 4, 'closing balance sheet date' is amended to 'end of the reporting period' and 'closing balance sheet date of that period' is amended to 'end of that reporting period'.

In the Illustrative Example accompanying HK(IFRIC)-Int 7, in the quotation from HKAS 29 in paragraph IE6, 'income statement items' is amended to 'income and expense items'.

IE6 In this example, the restated deferred tax liability is increased by CU34 to CU151 from 31 December 20X3 to 31 December 20X4. That increase, which is included in profit or loss in 20X4, reflects (a) the effect of a change in the taxable temporary difference of property, plant and equipment, and (b) a loss of purchasing power on the tax base of property, plant and equipment. The two components can be analysed as follows:

	CU million
Effect on deferred tax liability because of a decrease in the taxable temporary difference of property, plant and equipment (-CU235 + CU133) x 30%	31
Loss on tax base because of inflation in 20X4 (CU333 x 1.652 - CU333) x 30%	(65)
Net increase of deferred tax liability ~~(debit to profit or loss in 20X4)~~	(34)
Debit to profit or loss in 20X4	34

The loss on tax base is a monetary loss. Paragraph 28 of HKAS 29 explains this as follows:

> The gain or loss on the net monetary position is included in net income. The adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 13 is offset against the gain or loss on net monetary position. Other income statement items, such as interest income and expense, and foreign exchange differences related to invested or borrowed funds, are also associated with the net monetary position. Although such items are separately disclosed, it may be helpful if they are presented together with the gain or loss on net monetary position in the income statement.

Appendix B

Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

The rubric preceding the Basis for Conclusions is amended as follows:

> *This Basis for Conclusions accompanies, but is not part of, HK(IFRIC)-Int 7.*
>
> *In this Basis for Conclusions the terminology has not been amended to reflect the changes made by HKAS 1* Presentation of Financial Statements *(as revised in 2007).*

Paragraph BC24 is footnoted as follows:

BC24 The IFRIC observed that paragraph 18 of Appendix A to IAS 12 explains:*

> Non-monetary assets are restated in terms of the measuring unit current at the balance sheet date (see IAS 29 *Financial Reporting in Hyperinflationary Economies*) and no equivalent adjustment is made for tax purposes. *(notes: (1) the deferred tax is charged in the income statement;*[†] *and (2) if, in addition to the restatement, the non-monetary assets are also revalued, the deferred tax relating to the revaluation is charged to equity*[§] *and the deferred tax relating to the restatement is charged in the income statement.)*

* Paragraph 18 has been amended as a consequence of the changes made by IAS 1 *Presentation of Financial Statements* (as revised in 2007).

† IAS 1 (revised 2007) requires an entity to present all income and expense items in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income).

§ Under IAS 1 (revised 2007), such effect is recognised in other comprehensive income.

Contents

Hong Kong (IFRIC) Interpretation 10 *Interim Financial Reporting and Impairment* (HK(IFRIC)-Int 10) is set out in paragraphs 1-10. HK(IFRIC)-Int 10 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

Appendix

Amendments resulting from other HKFRSs

The following sets out amendments required for this Interpretation resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Interpretation and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

In paragraph 1, 'every reporting date' is amended to 'the end of each reporting period', 'every balance sheet date' is amended to 'the end of each reporting period' and 'a subsequent reporting or balance sheet date' is amended to 'the end of a subsequent reporting period'.

In paragraph 7, 'a subsequent balance sheet date' is amended to 'at the end of a subsequent reporting period'.

CONTENTS

Hong Kong (IFRIC) Interpretation 12 *Service Concession Arrangements* (HK(IFRIC)-Int 12) is set out in paragraphs 1-30 and Appendices A ~~and~~, B and C. HK(IFRIC)-Int 12 is accompanied by Information Notes, Illustrative Examples and a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

Appendix B
Amendments to HKFRS 1 and to other Interpretations

The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2008. If an entity applies this Interpretation for an earlier period, these amendments shall be applied for that earlier period.

* * *

The amendments contained in this appendix when this Interpretation was issued have been incorporated into the relevant Standards.

~~B1 HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards* is amended as described below. New text is underlined and deleted text struck through.~~

~~Paragraph 9 is amended as follows:~~

~~9 The transitional provisions in other HKFRSs apply to changes in accounting policies made by an entity that already uses HKFRSs; they do not apply to a *first-time adopter's* transition to HKFRSs, except as specified in paragraphs 25D, 25H, 34A and 34B.~~

~~In paragraph 12(a), the reference to paragraphs 13-25G is changed to 13-25H.~~

~~In paragraph 13, subparagraphs (k) and (l) are amended, and subparagraph (m) is inserted, as follows:~~

~~(k) leases (paragraph 25F); and~~

~~(l) fair value measurement of financial assets or financial liabilities at initial recognition (paragraph 25G).; and~~

~~(m) a financial asset or an intangible asset accounted for in accordance with HK(IFRIC)-Int 12 *Service Concession Arrangements* (paragraph 25H).~~

~~After paragraph 25G, a new heading and paragraph 25H are inserted as follows:~~

~~**Service concession arrangements**~~

~~25H A first-time adopter may apply the transitional provisions in HK(IFRIC)-Int 12 *Service Concession Arrangements*.~~

~~B2 HK(IFRIC)-Int 4 *Determining whether an Arrangement Contains a Lease* is amended as described below.~~

~~Paragraph 4 is amended as follows (new text is underlined):~~

~~4 This Interpretation does not apply to arrangements that:~~

~~(a) are, or contain, leases excluded from the scope of HKAS 17; or~~

~~(b) are public-to-private service concession arrangements within the scope of HK(IFRIC)-Int 12 *Service Concession Arrangements*.~~

~~In the Basis for Conclusions, after paragraph BC14 a new paragraph BC14A is inserted as follows:~~

~~BC14A The IFRIC considered whether the scope of the Interpretation might overlap with IFRIC 12, which was developed from draft Interpretations D12-D14. In particular it noted the views expressed by some respondents to the proposals that the contractual terms of some public-to-private service concession arrangements would be regarded as leases under IFRIC 4 and would also be~~

~~regarded as meeting the scope criterion of D12-D14. The IFRIC did not regard the choice between accounting treatments as appropriate because it could lead to different accounting treatments for contracts that have similar economic effects. The IFRIC therefore amended IFRIC 4 to specify that if a public-to-private service concession arrangement met the scope requirements of IFRIC 12 it would not be within the scope of IFRIC 4.~~

~~B3 HK(SIC)-Int 29 *Disclosure–Service Concession Arrangements* is amended as described below (in amended paragraphs new text is underlined).~~

~~Its title is amended to *Service Concession Arrangements: Disclosures*.~~

~~In paragraphs 1-6 references to “Concession Operator” are changed to “operator”, and references to “Concession Provider” are changed to “grantor”.~~

~~In paragraph 6, subparagraph (d) is amended, and subparagraph (e) is inserted, as follows:~~

~~(d) changes in the arrangement occurring during the period.; and~~

~~(e) how the service arrangement has been classified.~~

~~After paragraph 6 a new paragraph 6A is inserted, as follows:~~

~~6A An operator shall disclose the amount of revenue and profits or losses recognised in the period on exchanging construction services for a financial asset or an intangible asset.~~

~~In the HK(SIC)’s Basis for Conclusions, a rubric is added above paragraph 8 as follows:~~

~~*[The original text has been marked up to reflect the issue of HK(IFRIC)-Int 12 in 2007;]*~~

~~and the last sentence of paragraph 9 is changed as follows:~~

~~… delivering that asset to the Concession Provider grantor at the end of the concession period.~~

Appendix C

Amendments resulting from other HKFRSs

The following sets out amendments required for this Interpretation resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Interpretation and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 23 *Borrowing Costs* (issued in June 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraph 22 is amended as follows:

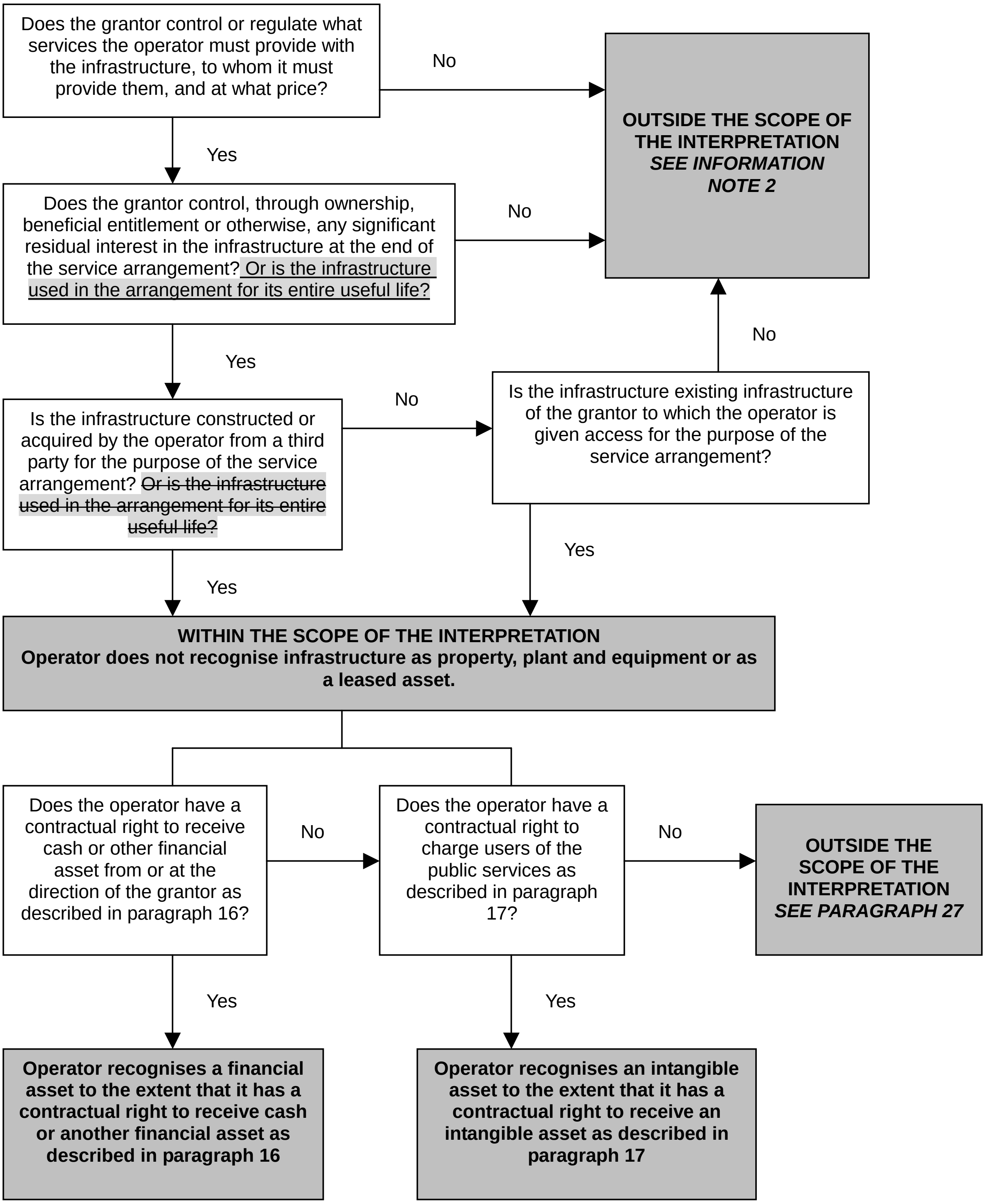
22 In accordance with HKAS 23, borrowing costs attributable to the arrangement shall be recognised as an expense in the period in which they are incurred unless the operator has a contractual right to receive an intangible asset (a right to charge users of the public service). In this case borrowing costs attributable to the arrangement ~~may~~ shall be capitalised during the construction phase of the arrangement in accordance with ~~the allowed alternative treatment under~~ that Standard.

Information note 1

Accounting framework for public-to-private service arrangements

This note accompanies, but is not part of, HK(IFRIC)-Int 12.

The diagram below summarises the accounting for service arrangements established by HK(IFRIC)-Int 12.



Appendix
Amendments resulting from other Implementation Guidance

The following sets out amendments required for this Guidance resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Guidance and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 23 *Borrowing Costs* (issued in June 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraphs IE15 and IE31 are amended as follows:

IE15 During the construction phase of the arrangement the operator's asset (representing its accumulating right to be paid for providing construction services) is classified as an intangible asset (licence to charge users of the infrastructure). The operator estimates the fair value of its consideration received to be equal to the forecast construction costs plus 5 per cent margin. It is also assumed that, in accordance with HKAS 23 *Borrowing Costs*, the operator ~~adopts the allowed alternative treatment in HKAS 23 Borrowing Costs and therefore~~ capitalises the borrowing costs, estimated at 6.7 per cent, during the construction phase of the arrangement:

IE31 During the construction phase of the arrangement the operator's asset (representing its accumulating right to be paid for providing construction services) is classified as a right to receive a licence to charge users of the infrastructure. The operator estimates the fair value of its consideration received or receivable as equal to the forecast construction costs plus 5 per cent. It is also assumed that, in accordance with HKAS 23 *Borrowing Costs*, the operator ~~adopts the allowed alternative treatment in HKAS 23 Borrowing Costs and therefore~~ capitalises the borrowing costs, estimated at 6.7 per cent, during the construction phase:

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

In paragraphs IE4, IE6, IE17, IE20, IE33 and IE36, '[the] income statement' is amended to 'profit or loss'.

In paragraphs IE20 and IE36, 'The income statement charge each period is' is amended to 'The charge recognised each period in profit or loss is'.

In tables 2.3 and 3.6, 'income statement' is amended to 'profit or loss'.

Appendix
Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 23 *Borrowing Costs* (issued in June 2007) – effective for annual periods beginning on or after 1 January 2009

The first sentence of paragraph BC57, and paragraphs BC59 and BC77(f) are footnoted as follows:

> In March 2007, IAS 23 was revised to require the previously allowed alternative treatment of capitalisation. Therefore, an entity is required to capitalise borrowing costs as part of the cost of a qualifying asset to the extent that they are directly attributable to its acquisition, construction or production until the asset is ready for its intended use or sale. That revision does not affect the reasoning set out in this Basis for Conclusions.

CONTENTS

paragraphs

Hong Kong (IFRIC) Interpretation 14
HKAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Hong Kong (IFRIC) Interpretation 14 *HKAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (HK(IFRIC)-Int 14) is set out in paragraphs 1 – 28. HK(IFRIC)-Int 14 is accompanied by Illustrative Examples and a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

Appendix

Amendments resulting from other HKFRSs

The following sets out amendments required for this Interpretation resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Interpretation and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statement*s (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

In paragraph 10, 'net balance sheet asset or liability' is amended to 'net asset or liability recognised in the statement of financial position'.

In paragraph 26(b), 'the statement of recognised income and expense' is amended to 'other comprehensive income'.

Paragraph 27A is added as follows.

27A HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 26. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

The illustrative examples accompanying HK(IFRIC)-Int 14 are amended as described below.

In paragraph IE7, ‘balance sheet liability of 180’ is amended to ‘liability of 180 in the statement of financial position’.

In the tables below paragraphs IE7 and IE20, ‘Net balance sheet liability’ is amended to ‘Net liability recognised in the statement of financial position’.

In paragraphs IE8 and IE21, ‘balance sheet asset’ is amended to ‘asset recognised in the statement of financial position’.

In paragraph IE20, ‘balance sheet liability of 244’ is amended to ‘liability of 244 in the statement of financial position’.

Hong Kong (SIC) Interpretation

HK(SIC)-Int 10

Government Assistance - No Specific Relation to Operating Activities (HKAS 20)

HK(SIC) Interpretation 10 *Government Assistance - No Specific Relation to Operating Activities* (HK(SIC)-Int 10) is set out in paragraph 3. HK(SIC)-Int 10 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards.*

Reference: HKAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

ISSUE

1. In some countries government assistance to entities may be aimed at encouragement or long-term support of business activities either in certain regions or industry sectors. Conditions to receive such assistance may not be specifically related to the operating activities of the entity. Examples of such assistance are transfers of resources by governments to entities which:

   (a) operate in a particular industry;

   (b) continue operating in recently privatised industries; or

   (c) start or continue to run their business in underdeveloped areas.

2. The issue is whether such government assistance is a "government grant" within the scope of HKAS 20 and, therefore, shall be accounted for in accordance with this Standard.

CONCLUSION

3. Government assistance to entities meets the definition of government grants in HKAS 20, even if there are no conditions specifically relating to the operating activities of the entity other than the requirement to operate in certain regions or industry sectors. Such grants shall therefore not be credited directly to equity.

BASIS FOR CONCLUSIONS

HK(SIC)-Int 10 is based on SIC Interpretation 10 *Government Assistance - No Specific Relation to Operating Activities*. In approving HK(SIC)-Int 10, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 10. Accordingly, there are no significant differences between HK(SIC)-Int 10 and SIC Interpretation 10. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 10 referred to below generally correspond with those in HK(SIC)-Int 10.

4. IAS 20.03 defines government grants as assistance by the government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. The general requirement to operate in certain regions or industry sectors in order to qualify for the government assistance constitutes such a condition in accordance with IAS 20.03. Therefore, such assistance falls within the definition of government grants and the requirements of IAS 20 apply, in particular paragraphs 12 and 20, which deal with the timing of recognition as income.

Date of Issue: December 2004

Effective Date: This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

This Interpretation supersedes the last sentence of paragraph 5 of SSAP 35 *Accounting for Government Grants and Disclosure of Government Assistance* (issued in March 2002).

Appendix

Amendments resulting from other HKFRSs

The following sets out amendments required for this Interpretation resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Interpretation and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

In paragraph 3, ‘equity’ is amended to ‘shareholders’ interests’.

Hong Kong (SIC) Interpretation HK(SIC)-Int 12 Consolidation - Special Purpose Entities

HK(SIC) Interpretation 12 *Consolidation – Special Purpose Entities* (HK(SIC)-Int 12) is set out in paragraphs 8-10. HK(SIC)-Int 12 is accompanied by a Basis for Conclusions and an appendix illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards*.

Reference: HKAS 27 *Consolidated and Separate Financial Statements*

ISSUE

1. An entity may be created to accomplish a narrow and well-defined objective (e.g., to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity ("SPE") may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their governing board, trustee or management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (i.e., they operate on so-called "autopilot").

2. The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties ("capital providers") may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE.

3. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits of the SPE's activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE's activities, even though it may own little or none of the SPE's equity.

4. HKAS 27 requires the consolidation of entities that are controlled by the reporting entity. However, the Standard does not provide explicit guidance on the consolidation of SPEs.

5. The issue is under what circumstances an entity should consolidate an SPE.

6. This Interpretation does not apply to post-employment benefit plans or ~~equity compensation plans~~ other long-term employee benefit plans to which HKAS 19 applies.

7. A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of HKAS 27 and this Interpretation may mean that the entity should consolidate the SPE. This Interpretation does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

CONSENSUS

8. An SPE should be consolidated when the substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

9. In the context of an SPE, control may arise through the predetermination of the activities of the SPE (operating on "autopilot") or otherwise. HKAS 27.13 indicates several circumstances which result in control even in cases where an entity owns one half or less of the voting power of another entity. Similarly, control may exist even in cases where an entity owns little or none of the SPE's equity. The application of the control concept requires, in each case, judgement in the context of all relevant factors.

10. In addition to the situations described in HKAS 27.13, the following circumstances, for example, may indicate a relationship in which an entity controls an SPE and consequently should consolidate the SPE (additional guidance is provided in the Appendix to this Interpretation):

    (a) in substance, the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the entity obtains benefits from the SPE's operation;

    (b) in substance, the entity has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an "autopilot" mechanism, the entity has delegated these decision making powers;

    (c) in substance, the entity has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or

    (d) in substance, the entity retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

11. [Deleted]

BASIS FOR CONCLUSIONS

HK(SIC)-Int 12 is based on SIC Interpretation 12 *Consolidation – Special Purpose Entities*. In approving HK(SIC)-Int 12, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 12. Accordingly, there are no significant differences between HK(SIC)-Int 12 and SIC Interpretation 12. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 12 referred to below generally correspond with those in HK(SIC)-Int 12.

12. IAS 27.12 states that "consolidated financial statements shall include all subsidiaries of the parent". IAS 27.04 defines a parent as "an entity that has one or more subsidiaries", a subsidiary as "an entity including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent)", and control as "the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities". Paragraph 35 of the Framework and IAS 8.10(b)(ii) require that transactions and other events are accounted for in accordance with their substance and economic reality, and not merely their legal form.

13. Control over another entity requires having the ability to direct or dominate its decision-making, regardless of whether this power is actually exercised. Under the definitions of IAS 27.04, the ability to govern decision-making alone, however, is not sufficient to establish control. The ability to govern decision-making must be accompanied by the objective of obtaining benefits from the entity's activities.

14. SPEs frequently operate in a predetermined way so that no entity has explicit decision-making authority over the SPE's ongoing activities after its formation (i.e., they operate on "autopilot"). Virtually all rights, obligations, and aspects of activities that could be controlled are predefined and limited by contractual provisions specified or scheduled at inception. In these circumstances, control may exist for the sponsoring party or others with a beneficial interest, even though it may be particularly difficult to assess, because virtually all activities are predetermined. However, the predetermination of the activities of the SPE through an "autopilot" mechanism often provides evidence that the ability to control has been exercised by the party making the predetermination for its own benefit at the formation of the SPE and is being perpetuated.

15. [Not used].

15A. In 2004, the IFRIC amended the scope of SIC-12. That Amendment is effective for annual periods beginning on or after 1 January 2005, unless an entity applied IFRS 2 for an earlier period, in which case the Amendment is effective for that earlier period. Before that Amendment, SIC-12 excluded from its scope equity compensation plans and post-employment benefit plans. Paragraphs 15B-15E summarise the IFRIC's considerations in reaching its consensus to amend the scope of SIC-12. Individual IFRIC members gave greater weight to some factors than to others.

15B. The IFRIC was asked by the IASB to consider whether the scope exclusion in SIC-12 for equity compensation plans should be removed when IFRS 2 becomes effective. Equity compensation plans were excluded from the scope of SIC-12 because they were within the scope of IAS 19 and that Standard did not specify recognition and measurement requirements for equity compensation benefits. However, once IFRS 2 became effective, IAS 19 would no longer apply to equity compensation plans. IFRS 2 specifies recognition and measurement requirements for equity compensation benefits.

15C. Also, IFRS 2 amended 32, to state that paragraphs 33 and 34, which relate to the treatment of treasury shares, should be applied to treasury shares purchased, sold, issued or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements. However, in some cases, those shares might be held by an employee benefit trust (or similar entity) set up by the entity for the purposes of its share-based payment arrangements. Removing the scope exclusion in SIC-12 would require an entity that controls such a trust to consolidate the trust and, in so doing, to apply the requirements of IAS 32 to treasury shares held by the trust.

15D. The IFRIC therefore concluded that, to ensure consistency with IFRS 2 and IAS 32, the scope of SIC-12 should be amended by removing the exclusion of equity compensation plans.

15E. At the same time, the IFRIC discussed the scope exclusion in SIC-12 for post-employment benefit plans. The IFRIC noted that, although SIC-12 did not exclude other long-term employee benefit plans from its scope, IAS 19 nevertheless requires those plans to be accounted for in a manner similar to the accounting for post-employment benefit plans. The IFRIC therefore concluded that, to ensure consistency with IAS 19, the scope exclusion in SIC-12 should also apply to other long-term employee benefit plans.

Date of Issue: March 2004

Effective Date: This Interpretation becomes effective for annual financial periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies should be accounted for in accordance with HKAS 8.

6. If, in addition to receiving an equity interest in the JCE, a venturer receives monetary or non-monetary assets, an appropriate portion of gain or loss on the transaction shall be recognised by the venturer in profit or loss.

7. Unrealised gains or losses on non-monetary assets contributed to JCEs shall be eliminated against the underlying assets under the proportionate consolidation method or against the investment under the equity method. Such unrealised gains or losses shall not be presented as deferred gains or losses in the venturer's consolidated balance sheet.

BASIS FOR CONCLUSIONS

HK(SIC)-Int 13 is based on SIC Interpretation 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. In approving HK(SIC)-Int 13, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 13. Accordingly, there are no significant differences between HK(SIC)-Int 13 and SIC Interpretation 13. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 13 referred to below generally correspond with those in HK(SIC)-Int 13.

8. IAS 31.48 requires that, while the assets are retained in the joint venture, the venturer shall recognise only that portion of the gain or loss which is attributable to the interests of the other venturers. Additional losses are recognised if required by IAS 31.48.

9. IAS 31.48 refers to the transfer of the "significant risks and rewards of ownership" as a condition for recognition of gains or losses resulting from transactions between venturers and joint ventures. IAS 18.16(a) to (d) contain examples of situations where the risks and rewards of ownership are typically not transferred. This guidance also applies by analogy to the recognition of gains or losses resulting from contributions of non-monetary assets to JCEs. Since the venturer participates in joint control of the JCE, it retains some "continuing managerial involvement" in the asset transferred. However, this does not generally preclude the recognition of gains or losses since joint control does not constitute control to the degree usually associated with ownership (IAS 18.14(b)).

10. Paragraph 92 of the Framework states: "income is recognised in the income statement when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably". IAS 18.14(c) requires, among other conditions, that revenue from the sale of goods shall be recognised when "the amount of revenue can be measured reliably". The requirement for reliable measurement also applies to the recognition of gains or losses resulting from a contribution of non-monetary assets to a JCE.

11. IAS 18.12 explains that "when goods and services are exchanged or swapped for goods or services which are of similar nature and value, the exchange is not regarded as a transaction which generates revenue". The same rationale applies to a contribution of non-monetary assets since a contribution to a JCE is, in substance, an exchange of assets with the other venturers at the level of the JCE.

12. To the extent that the venturer also receives cash or non-monetary assets dissimilar to the assets contributed in addition to equity interests in the JCE, the realisation of which is not dependent on the future cash flows of the JCE, the earnings process is complete. Accordingly, the appropriate portion of the gain on the non-monetary contribution is recognised in net profit or loss for the period.

13. It is not appropriate to present unrealised gains or losses on non-monetary assets contributed to JCEs as deferred items since such items do not meet the recognition criteria for assets or liabilities as defined in the Framework (paragraphs 53 to 64 and paragraphs 89 to 91).

Date of Issue: December 2004

Effective Date: This Interpretation becomes effective for annual financial periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies should be accounted for according to the transition requirements of HKAS 8.

14. The accounting for the non-monetary contribution transactions specified in paragraph 5 shall be applied prospectively to future transactions.

15. If an entity applies HKAS 16, *Property, Plant and Equipment* for an earlier period, it shall also apply this Interpretation for that earlier period.

15A. This Interpretation supersedes paragraphs 39 to 41 of SSAP 21 *Accounting for Interests in Joint Ventures* (issued in May 2001).

Appendix

Amendments resulting from other HKFRSs

The following sets out amendments required for this Interpretation resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Interpretation and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraph 3(a), 'the income statement' is amended to 'profit or loss'.

Hong Kong (SIC) Interpretation

HK(SIC)- Int 15

Operating Leases - Incentives

Hong Kong (SIC) Interpretation 15 *Operating Leases – Incentives* (HK(SIC)-Int 15) is set out in paragraphs 3-6. HK(SIC)-Int 15 is accompanied by a Basis for Conclusions and appendix illustrating the application of the Interpretation. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards.*

Reference: HKAS 17 *Leases*

ISSUES

1. In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent-free or at a reduced rent.

2. The issue is how incentives in an operating lease shall be recognised in the financial statements of both the lessee and the lessor.

CONCLUSIONS

3. All incentives for the agreement of a new or renewed operating lease shall be recognised as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

4. The lessor shall recognise the aggregate cost of incentives as a reduction of rental income over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

5. The lessee shall recognise the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

6. Costs incurred by the lessee, including costs in connection with a pre-existing lease (for example costs for termination, relocation or leasehold improvements), shall be accounted for by the lessee in accordance with the Hong Kong Accounting Standards applicable to those costs, including costs which are effectively reimbursed through an incentive arrangement.

BASIS FOR CONCLUSIONS

HK(SIC)-Int 15 is based on SIC Interpretation 15 *Operating Leases – Incentives*. In approving HK(SIC)-Int 15, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 15. Accordingly, there are no significant differences between HK(SIC)-Int 15 and SIC Interpretation 15. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 10 referred to below generally correspond with those in HK(SIC)-Int 15.

7. Paragraph 35 of the Framework explains that if information is to represent faithfully the transactions and events that it purports to represent, it is necessary that transactions and events are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. IAS 8.10(b)(ii) also requires the application of accounting policies which reflect economic substance.

8. Paragraph 22 of the Framework and IAS 1.25 require the preparation of financial statements under the accrual basis of accounting. IAS 17.33 and IAS 17.50 specify the basis on which lessees and lessors respectively shall recognise amounts payable or receivable under operating leases.

9. The underlying substance of operating lease arrangements is that the lessor and lessee exchange the use of an asset for a specified period for the consideration of a net amount of money. The accounting periods in which this net amount is recognised by either the lessor or the lessee is not affected by the form of the agreement or the timing of payments. Payments made by a lessor to or on behalf of a lessee, or allowances in rental cost made by a lessor, as incentives for the agreement of a new or renewed lease are an inseparable part of the net amount receivable or payable under the operating lease.

10. Costs incurred by the lessor as incentives for the agreement of new or renewed operating leases are not considered to be part of those initial costs which are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income in accordance with IAS 17.52. Initial costs, such as direct costs for administration, advertising and consulting or legal fees, are incurred by a lessor to arrange a contract, whereas incentives in an operating lease are, in substance, related to the consideration for the use of the leased asset.

11. Costs incurred by the lessee on its own behalf are accounted for using the applicable recognition requirements. For example, relocation costs are recognised as an expense in the income statement in the period in which they are incurred. The accounting for such costs does not depend on whether or not they are effectively reimbursed through an incentive arrangement as they are not related to the consideration for the use of the leased asset.

Date of Issue : December 2004

Effective Date: This Interpretation becomes effective for lease terms beginning on or after 1 January 2005. Earlier application is encouraged.

This Interpretation supersedes paragraphs 27, 28, 48 to 50 of SSAP 14 *Leases* (issued in February 2000)

Appendix

Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraphs 8 and 11 are amended as follows:

8 Paragraph 22 of the *Framework* and IAS 1.~~25~~27 require the preparation of financial statements under the accrual basis of accounting. IAS 17.33~~25~~ and IAS 17.50~~42~~ specify the basis on which lessees and lessors respectively should recognise amounts payable or receivable under operating leases.

11 Costs incurred by the lessee on its own behalf are accounted for using the applicable recognition requirements. For example, relocation costs are recognized as an expense in profit or loss ~~the income statement~~ in the period in which they are incurred. The accounting …

Hong Kong (SIC) Interpretation

HK(SIC)-Int 25

Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders

HK(SIC) Interpretation 25 *Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders* (HK(SIC)-Int 25) is set out in paragraph 4. HK(SIC)-Int 25 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards.*

Reference: HKAS 12 *Income Taxes*

ISSUE

1. A change in the tax status of an entity or of its shareholders may have consequences for an entity by increasing or decreasing its tax liabilities or assets. This may, for example, occur upon the public listing of an entity's equity instruments or upon the restructuring of an entity's equity. It may also occur upon a controlling shareholder's move to a foreign country. As a result of such an event, an entity may be taxed differently; it may for example gain or lose tax incentives or become subject to a different rate of tax in the future.

2. A change in the tax status of an entity or its shareholders may have an immediate effect on the entity's current tax liabilities or assets. The change may also increase or decrease the deferred tax liabilities and assets recognised by the entity, depending on the effect the change in tax status has on the tax consequences that will arise from recovering or settling the carrying amount of the entity's assets and liabilities.

3. The issue is how an entity shall account for the tax consequences of a change in its tax status or that of its shareholders.

CONCLUSIONS

4. A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised directly in equity. The current and deferred tax consequences of a change in tax status shall be included in net profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity. Those tax consequences that relate to changes in the recognised amount of equity, in the same or a different period (not included in net profit or loss), shall be charged or credited directly to equity.

BASIS FOR CONCLUSIONS

HK(SIC)-Int 25 is based on SIC Interpretation 25 *Income Taxes - Changes in the Tax Status of an Entity or its Shareholders*. In approving HK(SIC)-Int 25, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 25. Accordingly, there are no significant differences between HK(SIC)-Int 25 and SIC Interpretation 25. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 25 referred to below generally correspond with those in HK(SIC)-Int 25.

5. IAS 12.58 requires current and deferred tax to be included in the net profit or loss for the period, except to the extent the tax arises from a transaction or event that is recognised directly in equity, in the same or a different period, (or arises from a business combination). IAS 12.61 requires that current and deferred tax be charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

6. IAS 12.62 identifies examples of circumstances in which a transaction or event is recognised directly in equity as is permitted or required by another Standard. All of these circumstances result in changes in the recognised amount of equity through recognition of a credit or charge directly to equity.

7. IAS 12.65 explains that where the tax base of a revalued asset changes, any tax consequence is recognised directly in equity only to the extent a related accounting revaluation was or is expected to be recognised directly in equity (revaluation surplus).

8. Because tax consequences recognised directly in equity must relate to a transaction or event recognised directly in equity in the same or a different period, the cumulative amount of tax charged or credited directly to equity can be expected to be the same amount that would have been charged or credited directly to equity if the new tax status had applied previously. IAS 12.63(b) acknowledges that determining the tax consequences of a change in the tax rate or other tax rules that affects a deferred tax asset or liability and relates to an item previously charged or credited to equity may prove to be difficult. Because of this, IAS 12.63 suggests that an allocation may be necessary.

Date of Issue: December 2004

Effective Date: This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

This Interpretation supersedes Interpretation 21 *Income Taxes - Changes in the Tax Status of an Enterprise or its Shareholders* (issued in July 2002).

Appendix A

Amendments resulting from other HKFRSs

The following sets out amendments required for this Interpretation resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Interpretation and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraph 4 is amended as follows:

4 A change in the tax status of an entity or its shareholders does not give rise to increases or decreases in amounts recognised ~~directly in equity~~ <u>outside profit or loss</u>. The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or a different period, in a direct credit or charge to the recognised amount of equity <u>or in amounts recognised in other comprehensive income</u>. Those tax consequences that relate to changes in the recognized amount of equity, in the same or a different period (not included in profit or loss), shall be charged or credited directly to equity. <u>Those tax consequences that relate to amounts recognised in other comprehensive income shall be recognised in other comprehensive income</u>.

Under the heading '**Effective date**' a new paragraph is added after 'HKAS 8' as follows:

HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 4. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.

Appendix B

Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

Pragraphs 5 – 8 are amended, and paragraph 5A is added, as follows:

5 IAS 12.58 requires current and deferred tax to be included in ~~the net~~ profit or loss for the period, except to the extent the tax arises from a transaction or event that is recognised outside profit or loss either in other comprehensive income or directly in equity, in the same or a different period, (or arises from a business combination ~~that is an acquisition~~). IAS 12.61A requires ~~that~~ current and deferred tax to be recognised outside profit or loss ~~charged or credited directly to equity~~ if the tax relates to items that are recognised ~~credited or charged~~, in the same or a different period, outside profit or loss ~~directly to equity~~.

5A IAS 12.62 identifies examples of circumstances in which a transaction or event is recognised in other comprehensive income as permitted or required by another IFRS. All of these circumstances result in changes in the recognised amount of equity through recognition in other comprehensive income.

6 IAS 12.62A identifies examples of circumstances in which a transaction or event is recognised directly in equity as ~~is~~ permitted or required by another IFRS ~~International Financial Reporting Standard~~. All of these circumstances result in changes in the recognised amount of equity through recognition of a credit or charge directly to equity.

7 IAS 12.65 explains that where the tax base of a revalued asset changes, any tax consequence is recognised in other comprehensive income ~~directly in equity~~ only to the extent that a related accounting revaluation was or is expected to be recognised in other comprehensive income ~~directly in equity~~ (revaluation surplus).

8 Because tax consequences recognised outside profit or loss, whether in other comprehensive income or directly in equity, must relate to a transaction or event recognised outside profit or loss ~~directly in equity~~ in the same or a different period, the cumulative amount of tax ~~charged or credited directly to equity~~ recognised outside profit or loss can be expected to be the same amount that would have been recognised outside profit or loss ~~charged or credited directly to equity~~ if the new tax status had applied previously. IAS 12.63(b) acknowledges that determining the tax consequences of a change in the tax rate or other tax rules that affects a deferred tax asset or liability and relates to an item previously recognised outside profit or loss ~~charged or credited to equity~~ may prove to be difficult. Because of this, IAS 12.63 suggests that an allocation may be necessary.

Hong Kong (SIC) Interpretation

HK(SIC)-Int 29

~~Disclosure -~~ Service Concession Arrangements: Disclosures

HK(SIC) Interpretation 29 ~~*Disclosure -*~~ *Service Concession Arrangements: Disclosures* (HK(SIC)-Int 29) is set out in paragraphs 6 and 7. HK(SIC)-Int 29 is accompanied by a Basis for Conclusions. The scope and authority of Interpretations are set out in the *Preface to Hong Kong Financial Reporting Standards.*

References: HKAS 1 *Presentation of Financial Statements*

ISSUE

1. An entity (the ~~Concession O~~operator) may enter into an arrangement with another entity (the ~~Concession Provider~~grantor) to provide services that give the public access to major economic and social facilities. The ~~Concession Provider~~grantor may be a public or private sector entity, including a governmental body. Examples of service concession arrangements involve water treatment and supply facilities, motorways, car parks, tunnels, bridges, airports and telecommunication networks. Examples of arrangements that are not service concession arrangements include an entity outsourcing the operation of its internal services (e.g., employee cafeteria, building maintenance, and accounting or information technology functions).

2. A service concession arrangement generally involves the ~~Concession Provider~~ grantor conveying for the period of the concession to the ~~Concession O~~operator:

   (a) the right to provide services that give the public access to major economic and social facilities, and

   (b) in some cases, the right to use specified tangible assets, intangible assets, and/or financial assets,

   in exchange for the ~~Concession O~~operator:

   (c) committing to provide the services according to certain terms and conditions during the concession period, and

   (d) when applicable, committing to return at the end of the concession period the rights received at the beginning of the concession period and/or acquired during the concession period.

3. The common characteristic of all service concession arrangements is that the ~~Concession O~~operator both receives a right and incurs an obligation to provide public services.

4. The issue is what information shall be disclosed in the notes in the financial statements of an ~~Concession O~~operator and a ~~Concession Provider~~ grantor.

5. Certain aspects and disclosures relating to some service concession arrangements are already addressed by existing Hong Kong Financial Reporting Standards (e.g., HKAS 16, applies to acquisitions of items of property, plant and equipment, HKAS 17 applies to leases of assets, and HKAS 38 applies to acquisitions of intangible assets). However, a service concession arrangement may involve executory contracts that are not addressed in Hong Kong Financial

Reporting Standards, unless the contracts are onerous, in which case HKAS 37 applies. Therefore, this Interpretation addresses additional disclosures of service concession arrangements.

CONCLUSIONS

6. All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. An ~~Concession O~~operator and a ~~Concession Provider~~grantor shall disclose the following in each period:

   (a) a description of the arrangement;

   (b) significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows (e.g., the period of the concession, re-pricing dates and the basis upon which re-pricing or re-negotiation is determined);

   (c) the nature and extent (e.g., quantity, time period or amount as appropriate) of:

      (i) rights to use specified assets;

      (ii) obligations to provide or rights to expect provision of services;

      (iii) obligations to acquire or build items of property, plant and equipment;

      (iv) obligations to deliver or rights to receive specified assets at the end of the concession period;

      (v) renewal and termination options; and

      (vi) other rights and obligations (e.g., major overhauls); ~~and~~

   (d) changes in the arrangement occurring during the period~~.~~; and

   (e) how the service arrangement has been classified.

6A. An operator shall disclose the amount of revenue and profits or losses recognised in the period on exchanging construction services for a financial asset or an intangible asset.

7. The disclosures required in accordance with paragraph 6 of this Interpretation shall be provided individually for each service concession arrangement or in aggregate for each class of service concession arrangements. A class is a grouping of service concession arrangements involving services of a similar nature (e.g., toll collections, telecommunications and water treatment services).

BASIS FOR CONCLUSIONS

HK(SIC)-Int 29 is based on SIC Interpretation 29 *Service Concession Arrangements: Disclosures*. In approving HK(SIC)-Int 29, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 29. Accordingly, there are no significant differences between HK(SIC)-Int 29 and SIC Interpretation 29. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 29 referred to below generally correspond with those in HK(SIC)-Int 29.

8. Paragraph 15 of the *Framework* states that the economic decisions taken by users of financial statements require an evaluation of the ability of the entity to generate cash and cash equivalents and of the timing and certainty of their generation. Paragraph 21 of the *Framework* states that financial statements also contain notes and supplementary schedules and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the balance sheet and income statement. They may also include disclosures about the risks and uncertainties affecting the entity and any resources and obligations not recognised in the balance sheet.

9. A service concession arrangement often has provisions or significant features that warrant disclosure of information necessary to assist in assessing the amount, timing and certainty of future cash flows, and the nature and extent of the various rights and obligations involved. The rights and obligations associated with the services to be provided usually involve a high level of public involvement (e.g., to provide electricity to a city). Other obligations could include significant acts such as building an infrastructure asset (e.g., power plant) and delivering that asset to the ~~Concession Provider~~ grantor at the end of the concession period.

10. IAS 1.103(c) requires an entity's notes to provide additional information that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement, but is relevant to an understanding of any of them. The definition of notes in IAS 1.11 indicates that notes provide narrative descriptions or disaggregations of items disclosed in the balance sheet, income statement, statement of changes in equity and cash flow statement, as well as information about items that do not qualify for recognition in those statements.

Date of Issue: December 2004

Effective Date: This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

An entity shall apply the amendment in paragraphs 6(e) and 6A for annual periods beginning on or after 1 January 2008. If an entity applies HK(IFRIC)-Int 12 for an earlier period, the amendment shall be applied for that earlier period.

This Interpretation supersedes Interpretation 16 *Disclosure - Service Concession Arrangements* (issued in July 2002).

Appendix

Amendments resulting from other Basis for Conclusions

The following sets out amendments required for this Basis for Conclusions resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Basis for Conclusions and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraphs 8 and 10 are amended as follows:

8 Paragraph 15 of the *Framework* states that the economic decisions taken by users of financial statements require an evaluation of the ability of the entity to generate cash and cash equivalents and of the timing and certainty of their generation. Paragraph 21 of the *Framework* states that financial statements also contain notes and supplementary schedules and other information. For example, they may contain additional information that is relevant to the needs of users about the items in the <u>statement of financial position</u> ~~balance sheet~~ and <u>statement of comprehensive</u> income ~~statement~~. They may also include disclosures about the risks and uncertainties affecting the entity and any resources and obligations not recognised in the <u>statement of financial position</u> ~~balance sheet~~.

10 IAS 1.<u>112(c)</u>~~103(c)~~ requires an entity's notes to provide additional information that is not presented <u>elsewhere in the financial statements</u> ~~on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement~~, but is relevant to an understanding of any of them. The definition of notes in IAS 1.<u>7</u>~~11~~ indicates that notes provide narrative descriptions or disaggregations of items disclosed in the <u>statement of financial position</u> ~~balance sheet~~, <u>statement of comprehensive income, separate</u> income statement <u>(if presented)</u>, statement of changes in equity and <u>statement of</u> cash flow<u>s</u> ~~statement~~, as well as information about items that do not qualify for recognition in those statements.

professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure shall be recognised as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site.

(d) the Operating stage begins once development of a web site is complete. Expenditure incurred in this stage shall be recognised as an expense when it is incurred unless it meets the recognition criteria in HKAS 38.18.

10. A web site that is recognised as an intangible asset under paragraph 8 of this Interpretation shall be measured after initial recognition by applying the requirements of HKAS 38.72-.87. The best estimate of a web site's useful life shall be short.

BASIS FOR CONCLUSIONS

HK(SIC)-Int 32 is based on SIC Interpretation 32 *Intangible Assets -Web Site Costs*. In approving HK(SIC)-Int 32, the Council of the Hong Kong Institute of Certified Public Accountants considered and agreed with the SIC's Basis for Conclusions on SIC Interpretation 32. Accordingly, there are no significant differences between HK(SIC)-Int 32 and SIC Interpretation 32. The SIC's Basis for Conclusions is reproduced below. The paragraph numbers of SIC Interpretation 32 referred to below generally correspond with those in HK(SIC)-Int 32.

11. An intangible asset is defined in IAS 38.8 as an identifiable non-monetary asset without physical substance. IAS 38.9 provides computer software as a common example of an intangible asset. By analogy, a web site is another example of an intangible asset.

12. IAS 38.68 requires expenditure on an intangible item to be recognised as an expense when incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria in IAS 38.18-.67. IAS 38.69 requires expenditure on start-up activities to be recognised as an expense when incurred. An entity developing its own web site for internal or external access is not undertaking a start-up activity to the extent that an internally generated intangible asset is created. The requirements and guidance in IAS 38.52-.67, in addition to the general requirements described in IAS 38.21 for recognition and initial measurement of an intangible asset, apply to expenditure incurred on the development of an entity's own web site. As described in IAS 38.65-.67, the cost of a web site recognised as an internally generated intangible asset comprises all expenditure that can be directly attributed and is necessary to creating, producing, and preparing the asset for it to be capable of operating in the manner intended by management.

13. IAS 38.54 requires expenditure on research (or on the research phase of an internal project) to be recognised as an expense when incurred. The examples provided in IAS 38.56 are similar to the activities undertaken in the Planning stage of a web site's development. Consequently, expenditure incurred in the Planning stage of a web site's development is recognised as an expense when incurred.

14. IAS 38.57 requires an intangible asset arising from the development phase of an internal project to be recognised only if an entity can demonstrate fulfilment of the six criteria specified. One of the criteria is to demonstrate how a web site will generate probable future economic benefits (IAS 38.57(d)). IAS 38.60 indicates that this criterion is met by assessing the economic benefits to be received from the web site and using the principles in IAS 36 *Impairment of Assets*, which considers the present value of estimated future cash flows from continuing use of the web site. Future economic benefits flowing from an intangible asset, as stated in IAS 38.17, may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the asset by the entity. Therefore, future economic benefits from a web site may be assessed when the web site is capable of generating revenues. A web site developed solely or primarily for advertising and promoting an entity's own products and services is not recognised as an intangible asset, because the entity cannot demonstrate the future economic benefits that will flow. Consequently, all expenditure on developing a web site solely or primarily for promoting and advertising an entity's own products and services is recognised as an expense when incurred.

15. Under IAS 38.21, an intangible asset is recognised if, and only if, it meets specified criteria. IAS 38.65 indicates that the cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the specified recognition criteria. When an entity acquires or creates content for purposes other than to advertise and promote an entity's own products and services, it may be possible to identify an intangible asset (eg a licence or a copyright) separate from a web site. However, a separate asset is not recognised when expenditure is directly attributed to creating, producing, and preparing the web site for it to be capable of operating in the manner intended by management—the expenditure is included in the cost of developing the web site.

16. IAS 38.69(c) requires expenditure on advertising and promotional activities to be recognised as an expense when incurred. Expenditure incurred on developing content that advertises and promotes an entity's own products and services (eg digital photographs of products) is an advertising and promotional activity, and consequently recognised as an expense when incurred.

17. Once development of a web site is complete, an entity begins the activities described in the Operating stage. Subsequent expenditure to enhance or maintain an entity's own web site is recognised as an expense when incurred unless it meets the recognition criteria in IAS 38.18. IAS 38.20 explains that most subsequent expenditures are likely to maintain the future economic benefits embodied in an existing intangible asset rather than meet the definition of an intangible asset and the recognition criteria set out in IAS 38. In addition, it is often difficult to attribute subsequent expenditure directly to a particular intangible asset rather than to the business as a whole. Therefore, only rarely will subsequent expenditure — expenditure incurred after the initial recognition of a purchased intangible asset or after completion of an internally generated intangible asset — be recognised in the carrying amount of an asset.

18. An intangible asset is measured after initial recognition by applying the requirements of IAS 38.72-.87. The revaluation model in IAS 38.75 is applied only when the fair value of an intangible asset can be determined by reference to an active market. However, as an active market is unlikely to exist for web sites, the cost model applies. Additionally, as indicated in IAS 38.92, many intangible assets are susceptible to technological obsolescence, and given the history of rapid changes in technology, the useful life of web sites will be short.

Date of Issue: December 2004

Effective Date: This Interpretation becomes effective for annual accounting periods beginning on or after 1 January 2005; earlier application is encouraged. Changes in accounting policies shall be accounted for in accordance with HKAS 8.

This Interpretation supersedes Interpretation 19 *Intangible Asset – Website Costs* (issued in October 2002).

Appendix

This appendix is illustrative only and does not form part of the Interpretation. The purpose of the appendix is to illustrate examples of expenditure that occur during each of the stages described in paragraphs 2 and 3 of the Interpretation and illustrate application of the Interpretation to assist in clarifying its meaning. It is not intended to be a comprehensive checklist of expenditure that might be incurred.

EXAMPLE APPLICATION OF HKAS-INT – 32

Stage / Nature of Expenditure	**Accounting treatment**
Planning ● undertaking feasibility studies ● defining hardware and software specifications ● evaluating alternative products and suppliers ● selecting preferences	Recognise as an expense when incurred in accordance with HKAS 38.54
Application and Infrastructure Development ● purchasing or developing hardware	Apply the requirements of HKAS 16
● obtaining a domain name ● developing operating software (eg operating system and server software) ● developing code for the application ● installing developed applications on the web server ● stress testing	Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in HKAS 38.21 and HKAS 38.57*
Graphical Design Development ● designing the appearance (eg layout and colour) of web pages	Recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in HKAS 38.21 and HKAS 38.57*
Content Development ● creating, purchasing, preparing (eg creating links and identifying tags), and uploading information, either textual or graphical in nature, on the web site before the completion of the web site's development. Examples of content include information about an entity, products or services offered for sale, and topics that subscribers access	Recognise as an expense when incurred in accordance with HKAS 38.69(c) to the extent that content is developed to advertise and promote an entity's own products and services (eg digital photographs of products). Otherwise, recognise as an expense when incurred, unless the expenditure can be directly attributed to preparing the web site to operate in the manner intended by management, and the web site meets the recognition criteria in HKAS 38.21 and HKAS 38.57*

continued…

…continued

Stage / Nature of Expenditure	Accounting treatment
Operating ● updating graphics and revising content ● adding new functions, features and content ● registering the web site with search engines ● backing up data ● reviewing security access ● analysing usage of the web site	Assess whether it meets the definition of an intangible asset and the recognition criteria set out in HKAS 38.18, in which case the expenditure is recognised in the carrying amount of the web site asset
Other ● selling, administrative and other general overhead expenditure unless it can be directly attributed to preparing the web site for use to operate in the manner intended by management ● clearly identified inefficiencies and initial operating losses incurred before the web site achieves planned performance (eg false-start testing) ● training employees to operate the web site	Recognise as an expense when incurred in accordance with HKAS 38.65-.70

* All expenditure on developing a web site solely or primarily for promoting and advertising an entity's own products and services is recognised as an expense when incurred in accordance with HKAS 38.68.

Appendix

Amendments resulting from other HKFRSs

The following sets out amendments required for this Interpretation resulting from other newly issued HKFRSs that are not yet effective. Once effective, the amendments set out below will be incorporated into the text of this Interpretation and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.

HKAS 1 *Presentation of Financial Statements* (issued in December 2007) – effective for annual periods beginning on or after 1 January 2009

Paragraph 5 is amended as follows:

5 This Interpretation … Additionally, when an entity incurs expenditure on an Internet service provider hosting the entity's web site, the expenditure is recognised as an expense under HKAS 1.~~78~~ 88 and the *Framework* when the services are received.

Under the heading '**Effective date**' a second paragraph is added as follows:

HKAS 1 (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 5. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies HKAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.