

Financial Reporting Update

KPMG HONG KONG - PROFESSIONAL PRACTICE

The HKICPA has announced that HKFRSs are in all material respects fully converged with IFRSs effective for accounting periods beginning on or after 1 January 2005

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Common abbreviations defined:

HKICPA - Hong Kong Institute of Certified Public Accountants (previously known as Hong Kong Society of Accountants)

SSAP - Statement of Standard Accounting Practice

HKAS - Hong Kong Accounting Standard

HKFRS - Hong Kong Financial Reporting Standard

IASB - International Accounting Standards Board

IFRS - International Financial Reporting Standard

IAS - International Accounting Standard

FRU - Financial Reporting Update issued by KPMG Hong Kong

AUDIT ■ TAX ■ ADVISORY

Completion of HKICPA's IFRS convergence project

In December 2004 the HKICPA announced that HKFRSs would, in all material respects, be fully converged with IFRSs as from accounting periods beginning on or after 1 January 2005. This announcement came at the end of a year in which the HKICPA issued an unprecedented number of new and revised financial reporting standards.

Our May 2004 Financial Reporting Update (FRU) gave an overview of the HKICPA's plans for the final phase of its IFRS convergence project, and set the scene for the subsequent FRUs that looked at the actual changes in requirements and guidance in more detail.

Entering 2005, as this phase of the HKICPA's IFRS convergence project comes to a close, this Update:

- briefly reviews the developments in the past year;
- considers the future role of the HKICPA in setting financial reporting standards in Hong Kong; and
- highlights some further developments in HKFRSs to watch out for in the near future, some of which may affect reporting in 2005.

Appendices provide useful reference lists of the new standards (categorised depending on whether they are unchanged, amended or new compared to existing HKFRSs) and our FRUs issued to date to assist you in your transition project. A fourth appendix sets out the IASB's project plan for those interested in future developments.

Overview of the convergence project

The HKICPA has been using IASs as the primary source for any new or revised Hong Kong accounting standards since 1993. At the same time, these international standards have been in state of flux that resulted, and still results, in a constant effort on the part of the HKICPA to keep pace.

In particular, in the past two years, the IASB rapidly finalised its projects for the purpose of building a "stable platform" for IFRS implementation by all listed companies in the European Union (EU).

These developments catalysed the final phase of the HKICPA's IFRS convergence project: compared with the relatively quiet 2003, 2004 saw significant changes to many of the accounting standards in Hong Kong.

- In April 2004, the HKICPA issued the first set of HKASs. These were IAS based SSAPs re-aligned with their recently amended source IAS text and renamed "HKASs" to correlate to the IAS names and numbering. For example, this first batch included HKAS 16, a revision of SSAP 17, *Property, plant and equipment*, updated to match the December 2003 version of IAS 16.

- Since this first batch, the HKICPA issued 4 individual HKFRSs (to adopt the new IFRSs 2, 3, 4, and 5), 5 IASs not previously adopted in Hong Kong and 17 HKASs and 1 Interpretation that contained changes of substance. It also re-named and numbered all other financial reporting standards and interpretations without substantial change.
- On 9 December 2004, with the issuance of the remaining HKASs, such as HKAS 40, *Investment property*, and HKAS 17, *Leases*, the HKICPA announced that it had met its goal of full convergence with all IFRSs effective as of 1 January 2005.

During the year the HKICPA also re-launched its Member's Handbook, which contains all of the HKICPA's financial reporting, audit and assurance, and ethics pronouncements. The Handbook now has an A-4 format, and an electronic pdf version of this can be accessed free of charge on the Institute's internet site, www.hkicpa.org.hk.

What did it take to achieve convergence?

In general, the HKICPA now adopts IFRSs word for word as HKFRSs. The changes made in the final phase to achieve this include the following:

- *In general, HKFRSs are adopted from IFRSs word for word*
- All SSAPs and Interpretations sourced from IASs and SIC Interpretations were renamed as HKASs and HKAS Interpretations respectively.
- The numbering of all HKASs and HKAS Interpretations, their titles and paragraph numbers were aligned with the equivalent IAS or Interpretation.
- The legacy differences between the Hong Kong standards and IASs were eliminated by:
 - removing exemptions from the scope of the standards that are not included in the equivalent IASs (e.g. in respect of the treatment of leasehold land, and non-preparation of cash flow statements by certain entities);
 - adopting any alternative treatments that are allowed under IFRSs, but are not currently in the equivalent SSAPs (e.g. expensing all borrowing costs);
 - moving IASB interpretations that were previously included in the body of the SSAPs back to being separate interpretations in line with the exact IASB presentation; and
 - deleting other additional guidance or disclosure requirements that were in the SSAPs but are not in the equivalent IASs.
- Revisions made to individual IASs and IFRSs by the IASB, which are effective as from 1 January 2005, were made to the equivalent HKAS or HKFRS, as applicable.
- IASs and Interpretations currently effective, which the HKICPA had yet to adopt, were introduced into the body of HKFRSs.
- Individual new IFRSs that have been issued by the IASB with an effective date of 1 January 2005 were adopted by the HKICPA and introduced into the body of HKFRSs, with some consequential updates to other HKASs and HKFRSs.
- *The new or amended standards, except HKFRS 3 Business Combinations, are generally effective for periods beginning on or after 1 January 2005*
- *The revised standards contain a variety of transitional provisions*
- *More details of the changes can be found in KPMG's Financial Reporting Updates*

The new or amended standards are generally effective for accounting periods beginning on or after 1 January 2005. An exception is HKFRS 3, *Business combinations*, which is effective for any business combination whose agreement date is on or after 1 January 2005, irrespective of the year end into which that transaction falls.

Where the standards may result in material changes in accounting policies for those adopting HKFRSs, they contain a variety of transitional provisions, which vary from one standard to the next. As a result, retrospective adjustments of opening balances and comparatives might be required, or permitted (but not required) or, in some cases, not allowed in the period of first adoption. If specific transitional provisions have not been set out, full retrospective adjustments (including restatement of comparatives) are required if practicable.

Appendix 3 to this Update provides a list of the FRUs we have issued to date to highlight these developments. All of these can be found in the virtual library at www.kpmg.com.hk or from your usual KPMG contact. We will continue to update you on developments during 2005. If you have any particular transactions or circumstances where the application of the new or amended standards is not clear, please do not hesitate to consult with your usual KPMG contact.

HKFRSs as from 1 January 2005

- *The body of HKFRSs effective from 1 January 2005 comprises the full range of IFRS material plus some home-grown material*

After making all of the above changes, the body of HKFRSs comprises:

- Preface to HKFRSs;
- Framework for the preparation and presentation of financial statements;
- individual HKFRSs adopted from the corresponding IFRSs;
- individual HKASs adopted from the corresponding IASs;
- one home-grown SSAP, SSAP 27, *Accounting for group reconstructions*, for which there is no equivalent international standard;
- HKAS and HKFRS Interpretations adopted from Interpretations issued by the IASB's Standing Interpretations Committee (SIC) or its successor, the International Financial Reporting Interpretations Committee (IFRIC); and
- home-grown Interpretations on topics of particular concern to the HKICPA.

Appendix 1 to this Update sets out an index of Hong Kong financial reporting standards and interpretations effective as of 1 January 2005. Except for HKFRS 1, which was issued in October 2003, all of the IFRS or IAS-based standards and interpretations in the appendix were issued in the past year. Appendix 2 categorises these standards and interpretations depending on whether they were unchanged by the convergence project, amended or new to Hong Kong.

Are there any remaining differences compared to IFRSs?

- *Some aspects of HKFRSs are unique despite the convergence with IFRSs*

While HKFRSs are in all material aspects fully converged with IFRSs effective for accounting periods beginning on or after 1 January 2005, some areas of differences remain. The exceptions are:

- transitional arrangements

This is particularly the case where Hong Kong is adopting an existing IAS for the first time. For example, HKAS 39 on recognition and measurement of financial instruments contains a variety of transitional provisions which may reduce the difficulties to be encountered when adopting this complex standard for the first time. However, where Hong Kong is adopting a new IFRS or amended IAS, then the transitional provision will tend to be the same as in the international text.

- additional/alternative requirements added for Hong Kong companies when these are prohibited by the Companies Ordinance from following a particular IFRS requirement

For the time being, the home grown paragraphs in SSAP 32 have been retained in its successor, HKAS 27, pending amendments to the Ordinance proposed under Companies (Amendment) Bill 2004. These paragraphs prohibit Hong Kong incorporated parents from consolidating entities which they control but which are not subsidiaries under the Hong Kong Companies Ordinance.

- additional guidance added by the HKICPA, for example on additional disclosure requirements under the Companies Ordinance

An appendix has been added to HKAS 1 to contain the "Notes on legal requirements in Hong Kong" that were previously found at the end of each SSAP. The appendix still groups these notes by relevant standard.

- any existing "home-grown" standards, interpretations, guidelines and bulletins retained by the HKICPA for the time being

These will be guidance or requirements on issues not covered by IFRSs. For example, SSAP 27, *Accounting for group reconstructions*, is currently still in issue and the HKICPA have recently issued, and are currently working on, Interpretations on matters of particular concern to Hong Kong, such as depreciation of hotel properties and profit recognition by property developers.

What's the future role of the HKICPA in financial reporting standard setting?

- *Now that convergence with IFRSs has been achieved, and the role of HKICPA is expected to change*

The completion of the IFRS convergence project has also brought about a change in the HKICPA's role in setting Hong Kong's financial reporting standards.

Under the HKICPA's due process of setting Hong Kong's financial reporting standards, the HKICPA has adopted an approach of co-ordinating their project plan with the IASB. When the IASB starts a project, the HKICPA also adds it to its own project plans so that it can participate in working towards an international consensus.

As part of this approach, where the IASB has issued an exposure draft for comments, the HKICPA will normally invite comments on the IASB's exposure draft from its Hong Kong constituents and other interested parties, which the HKICPA will then consider and may include in its comments submitted to the IASB. Once the IASB has finalised and issued a new IFRS or revised IAS, the HKICPA will then generally issue a new HKFRS or revise the equivalent HKAS based on the IASB's standard, without exposing it for further comment. In this way, HKFRSs will be kept up to date, as compared to the IASB's standards, on a timely basis.

In the HKICPA's press release on 9 December 2004, which announced that full convergence had been achieved, the HKICPA also stated that when issues arise on the application of the IFRSs in Hong Kong, it will raise the matters with the IASB, and propose and seek solutions within the global standard setting environment. In this way, the HKICPA will be acting as the liaison between the financial reporting constituency in Hong Kong and the IASB. For example, the HKICPA indicated in that same press release that it would request the IASB to revisit the definition of "investment property".

As mentioned above, the HKICPA is also actively maintaining its own standard setting role by issuing interpretations on matters of local interest. For the time being, these appear to be focused on highlighting for the avoidance of doubt the requirements in the HKFRSs that the HKICPA expects preparers to follow, rather than interpreting "grey areas" in the standards. Such Interpretations help to achieve consistency of application, particularly where in the past an industry practice has developed, which did not have a strong basis in the standards.

The end... or the beginning?

- *Convergence is a never-ending project as IFRSs continue to evolve*

The standards issued by the IASB in time for a 31 March 2004 deadline were described as a stable platform, to enable listed companies in the European Union to plan their transition in accounting periods beginning on or after 1 January 2005. While this implies the IASB and the HKICPA will not make any further significant changes to their standards for a few years, in practice there are many projects on the horizon.

In particular, the IASB continues to work on projects to converge IFRSs more closely with other GAAPs, primarily US GAAP. As discussed above, the HKICPA is now tending only to expose an IASB initiated change or new standard during the period that the IASB is requesting comments. Once the IASB finalised their pronouncement, the HKICPA is tending to make equivalent changes shortly afterwards, without further exposure, with the same effective date as under IFRSs. Appendix 4 highlights the IASB's current project plan.

This completes our review of the developments of the final phase of HKICPA's IFRS convergence project in the past year.

As discussed, HKFRSs are heavily shaped by IFRS developments. If you are interested in keeping track of developments in financial reporting standards issued by the IASB, you are welcome to join our mailing list for the following newsletters on IFRS developments issued by our International Financial Reporting Group:

- IFRS in Brief: a monthly newsletter to provide information on current developments in IFRSs; and
- IFRS Briefing Sheets: special editions published to report on new exposure drafts and standards issued by the IASB and on other relevant developments affecting current and future IFRS reporters.

These newsletters are also available from the virtual library at www.kpmg.com.hk. Alternatively, details of IASB's projects in progress are generally posted on their website (www.iasb.org.uk) under "Standards". Also, if at any time you would like further assistance, please talk to your usual KPMG contact.

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Appendix 1: Index of HKFRSs effective as from 1 January 2005

To help existing followers of HKFRSs in their transition projects, information on the standards and interpretations that are effective as at 1 January 2005 has been presented in these appendices in two formats:

- this appendix lists the standards and interpretations under HKFRSs effective for accounting periods beginning on or after 1 January 2005 in numerical order; whereas
- appendix 2 categorises these standards and interpretations according to the extent that they contain material amendments or are new to HKFRSs, and indicates which pronouncements, if any, have been superseded.

Cross references have been added from the lists below to the tables in appendix 2, to enable a quick check on the extent to which a particular standard has been affected by the convergence project.

In addition to the standards and interpretations listed below, followers of HKFRSs should also take note of the Framework for the preparation and presentation of financial statements. The Framework was fully aligned with the IFRS equivalent in May 2003 and should be referred to when a transaction or other event or condition is not specifically dealt with in a standard or interpretation (HKAS 8.10-11).

HKFRSs		Appendix 2 - Table reference
1	First-time adoption of Hong Kong Financial Reporting Standards	(Note 1)
2	Share-based payment	2.5
3	Business combinations	2.5
4	Insurance contracts	2.5
5	Non-current assets held for sale and discontinued operations	2.5
6	Exploration for and evaluation of mineral resources	Not yet effective but early adoption allowed (note 2)

Note 1: IFRS 1 is generally updated every time an IFRS is issued or an IAS is amended. Equivalent amendments are made to HKFRS 1 where applicable.

Note 2: HKFRS 6 is effective for accounting periods beginning on or after 1 January 2006. However, early adoption is allowed.

HKASs		Appendix 2 - Table reference
1	Presentation of financial statements	2.3
2	Inventories	2.3
7	Cash flow statements	2.2
8	Accounting policies, changes in accounting estimates and errors	2.3
10	Events after the balance sheet date	2.3
11	Construction contracts	2.1
12	Income taxes	2.1
14	Segment reporting	2.1
16	Property, plant and equipment	2.3
17	Leases	2.2
18	Revenue	2.1
19	Employee benefits	2.1
20	Accounting for government grants and disclosure of government assistance	2.1
21	The effects of changes in foreign exchange rates	2.2
23	Borrowing costs	2.2
24	Related party disclosures	2.3
26	Accounting and reporting by retirement benefit plans	2.4
27	Consolidated and separate financial statements	2.3
28	Investments in associates	2.3
29	Financial reporting in hyperinflationary economies	2.4

HKASs		Appendix 2 - Table reference
30	Disclosures in the financial statements of banks and similar financial institutions	2.4
31	Interests in joint ventures	2.2
32	Financial instruments: Disclosure and presentation	2.4
33	Earnings per share	2.3
34	Interim financial reporting	2.1
36	Impairment of assets	2.3
37	Provisions, contingent liabilities and contingent assets	2.1
38	Intangible assets	2.3
39	Financial instruments: Recognition and measurement	2.4
40	Investment property	2.2
41	Agriculture	2.1

SSAP		Appendix 2 - Table reference
27	Accounting for group reconstructions	Still effective but expected to be withdrawn (Note 3)

Note 3: The HKICPA has proposed withdrawing SSAP 27 and is considering issuing some guidance on the area of merger accounting as this topic is not currently dealt with in IFRSs.

HKFRS-Int		Appendix 2 - Table reference
1	Changes in existing decommissioning, restoration and similar liabilities	2.5
2	Members' shares in co-operative entities and similar instruments	2.5
3	Emission rights	Not yet effective but early adoption allowed (Note 4)
4	Determining whether an arrangement contains a lease	Not yet effective but early adoption allowed (Note 4)
5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	Not yet effective but early adoption allowed (Note 4)

Note 4: HKFRS-Int 3 is effective for accounting periods beginning on or after 1 March 2005, and HKFRS-Int 4 and 5 are both effective for accounting periods beginning on or after 1 January 2006, but early adoption of them is allowed.

HKAS-Int		Appendix 2 - Table reference
10	Government assistance - No specific relation to operating activities (HKAS 20)	2.6
12	Consolidation - Special purpose entities	2.6
13	Jointly controlled entities - Non-monetary contributions by venturers	2.6
15	Operating leases - Incentives	2.6
21	Income taxes - Recovery of revalued non-depreciable assets	2.2
25	Income taxes - Changes in the tax status of an enterprise or its shareholders	2.6
27	Evaluating the substance of transactions involving the legal form of a lease	2.6
29	Disclosure - Service concession arrangements	2.6
31	Revenue - Barter transactions involving advertising services	2.6
32	Intangible assets - Web site costs	2.6

SSAP-Int		Appendix 2 - Table reference
22	The appropriate policies for infrastructure facilities	Note 4 on page 9, 2.6
23	The appropriate policies for hotel properties	Note 4 on page 9, 2.6

Appendix 2: HKFRSs effective as from 1 January 2005 categorised according to extent of change

To help existing followers of HKFRSs in their transition projects, the standards listed in appendix 1 which were amended or issued under the IFRS convergence project have been categorised as follows:

- Standards renamed with no other material changes (Table 2.1)
- Standards and interpretations amended to eliminate legacy differences (Table 2.2)
- IAS-based standards amended as a result of IASB projects (Table 2.3)
- New HKASs adopted from remaining IASs (Table 2.4)
- New HKFRSs and interpretations adopted from new IFRSs and IFRIC interpretations (Table 2.5)
- Location and numbering of converged interpretations (Table 2.6)

Where more than one sub-category is applicable to a standard, the standard is classified under the sub-category that we considered the most relevant. For instance, although the financial instruments standards (IASs 32 and 39) were amended as a result of IASB's Improvements project in December 2003, the equivalent HKASs are classified under "New HKASs adopted from remaining IASs" (table 2.4) as their previous versions were not adopted by the HKICPA. In this way, no standard appears more than once in the tables below.

Free public access to the electronic full text of all HKFRSs and Interpretations is available on HKICPA's web site at www.hkicpa.org.hk.

Table 2.1: Standards renamed with no other material changes

The following HKASs are not materially different from the SSAPs that they superseded, as the SSAPs were already aligned with the most recent version of the equivalent IAS. They have been renamed and renumbered as HKASs without material changes.

However, they may be subject to some consequential amendments arising from changes to other standards during the final phase of the convergence project. For example, the amendments to IAS 39 in December 2003 introduced new guidance on the calculation of effective interest rates and amended the definition of effective interest rate by requiring the use of estimated cash flows while calculating the effective yield. Consequentially, SSAP 18.29(a) (now HKAS 18.30(a)) has been amended to include reference to HKAS 39 in respect of the calculation of effective interest. Care should therefore be taken in the year of transition to double-check the final HKAS text.

HKASs		Standards superseded
11	Construction contracts (note 1)	SSAP 23, <i>Construction contracts</i>
12	Income taxes	SSAP 12, <i>Income taxes</i>
14	Segment reporting	SSAP 26, <i>Segment reporting</i>
18	Revenue (note 1)	SSAP 18, <i>Revenue</i>
19	Employee benefits (note 2)	SSAP 34, <i>Employee benefits</i>
20	Accounting for government grants and disclosure of government assistance	SSAP 35, <i>Accounting for government grants and disclosure of government assistance</i>
34	Interim financial reporting	SSAP 25, <i>Interim financial reporting</i>
37	Provisions, contingent liabilities and contingent assets	SSAP 28, <i>Provisions, contingent liabilities and contingent assets</i>
41	Agriculture	SSAP 36, <i>Agriculture</i>

Note 1: In January 2005, the HKICPA issued a home-grown proposed Interpretation that would provide guidance on the recognition of revenue arising from pre-completion contracts for the sale of development properties. Please refer to issue 16 of our FRU for details of the proposal.

Note 2: In February 2005, the HKICPA adopted the amendments recently finalised by the IASB on actuarial gains and losses, group plans and disclosures. The changes may be adopted in periods beginning on or after 1 January 2005.

Table 2.2: Standards and interpretations amended to eliminate legacy differences

The following standards and one interpretation were converged by eliminating the legacy differences between the Hong Kong standards and IASs. For example, SSAP 19 has been amended to include the benchmark treatment in IAS 23 of expensing all borrowing costs that was rejected when the HKICPA first adopted IAS 23 as SSAP 19.

HKASs	Standards superseded
7 Cash flow statements	SSAP 15, <i>Cash flow statements</i>
17 Leases	SSAP 14, <i>Leases</i>
21 The effects of changes in foreign exchange rates	SSAP 11, <i>Foreign currency translation</i>
23 Borrowing costs	SSAP 19, <i>Borrowing costs</i>
31 Interests in joint ventures (note 3)	SSAP 21, <i>Accounting for interests in joint ventures</i>
40 Investment property	SSAP 13, <i>Accounting for investment properties</i>
Int 21 Income taxes - Recovery of revalued non-depreciable assets	Interpretation 20, <i>Income taxes - Recovery of revalued non-depreciable assets</i>

Note 3: Material changes were also made to IAS 31 (the source of SSAP 21), arising from the IASB's December 2003 Improvement project. These changes were similar to those made to IAS 28, *Investments in associates* (see table 2.3).

Table 2.3: IAS-based standards amended as a result of IASB projects

The following amended standards have been issued mainly to catch up the December 2003 amendments made by the IASB to the equivalent IASs as a result of its Improvements project. The exceptions are HKASs 36 and 38 on impairments of assets and intangible assets: IASs 36 and 38 were amended during the IASB's IFRS 3, *Business combinations*, project, and issued at the same time as IFRS 3. The same amendments were made to SSAPs 31 and 29 and the new HKASs were issued at the same time as HKFRS 3 (see table 2.5 below).

HKASs	Standards superseded
1 Presentation of financial statements	<ul style="list-style-type: none"> SSAP 1, <i>Presentation of financial statements</i> Interpretation 8, <i>Presentation of financial statements - Current assets: classification of restricted and appropriated cash balances</i>
2 Inventories	SSAP 22, <i>Inventories</i>
8 Accounting policies, changes in accounting estimates and errors	SSAP 2, <i>Net profit or loss for the period, fundamental errors and changes in accounting policies</i>
10 Events after the balance sheet date	SSAP 9, <i>Events after the balance sheet date</i>
16 Property, plant and equipment (note 4)	<ul style="list-style-type: none"> SSAP 17, <i>Property, plant and equipment</i> Interpretation 1, <i>Costs of modifying existing software</i> Interpretation 5, <i>Property, plant and equipment - Compensation for the impairment or loss of items</i>
24 Related party disclosures	SSAP 20, <i>Related party disclosures</i>
27 Consolidated and separate financial statements (note 5)	<ul style="list-style-type: none"> SSAP 32, <i>Consolidated financial statements and accounting for investments in subsidiaries</i> Interpretation 18, <i>Consolidation and equity method - Potential voting rights and allocation of ownership interests</i>
28 Investments in associates (note 6)	<ul style="list-style-type: none"> SSAP 10, <i>Accounting for investments in associates</i> Interpretation 18, <i>Consolidation and equity method - Potential voting rights and allocation of ownership interests</i>
33 Earnings per share	<ul style="list-style-type: none"> SSAP 5, <i>Earnings per share</i> Interpretation 10, <i>Earnings per share - Financial instruments and other contracts that may be settled in shares</i>

HKASs	Standards superseded	
36	Impairment of assets (note 7) (effective for goodwill and intangible assets acquired in business combinations with agreement dates on or after 1 January 2005 and for all other assets, for annual periods beginning on or after 1 January 2005)	SSAP 31, <i>Impairment of assets</i>
38	Intangible assets (note 7) (effective for goodwill and intangible assets acquired in business combinations with agreement dates on or after 1 January 2005 and for all other assets, for annual periods beginning on or after 1 January 2005)	SSAP 29, <i>Intangible assets</i>

Note 4: In October 2004 the HKICPA issued two home-grown Interpretations, SSAP-Int 22, *The appropriate policies for infrastructure facilities* and SSAP-Int 23, *The appropriate policies for hotel properties*. SSAP-Int 22 was effective immediately. SSAP-Int 23 is first effective for accounting periods beginning on or after 1 January 2005 but can be adopted earlier.

Note 5: In January 2005, the HKICPA issued a proposed guidance on the accounting of a deemed disposal which would supersede Accounting Bulletin 4, *Deemed acquisitions and disposals*. If finalised, the guidance would be appended to HKAS 27.

Note 6: There were also material changes made to IAS 28 arising from the IASB's December 2003 Improvement project, similar to those made to IAS 31 (see table 2.2).

Note 7: IASs 36 and 38, on impairments of assets and intangible assets, were amended during the IASB's IFRS 3, *Business combinations*, project, and issued at the same time as IFRS 3. The same amendments were made to SSAPs 31 and 29 and issued as HKASs 36 and 38 at the same time as HKFRS 3 (see table 2.5 below).

Table 2.4: New HKASs adopted from remaining IASs

The following standards, which were adopted from existing IASs, are new to HKFRSs.

HKASs		Standards superseded
26	Accounting and reporting by retirement benefit plans	Industry accounting guideline 2.302 <i>Financial statements of retirement schemes</i>
29	Financial reporting in hyperinflationary economies	-
30	Disclosures in the financial statements of banks and similar financial institutions	-
32	Financial instruments: Disclosure and presentation	SSAP 24, <i>Accounting for investments in securities</i>
39	Financial instruments: Recognition and measurement (note 8)	SSAP 24, <i>Accounting for investments in securities</i>

Note 8: In February 2005, the HKICPA adopted the amendment made by the IASB to the transitional provisions in IAS 39 concerning initial recognition of financial assets and liabilities. These amendments are also effective for periods beginning on or after 1 January 2005.

Table 2.5: New HKFRSs and interpretations adopted from new IFRSs and IFRIC Interpretations

The following are new to both HKFRS and IFRSs.

HKFRSs and interpretations		Standards superseded
2	Share-based payment	-
3	Business combinations (note 9) (effective for business combinations with agreement dates on or after 1 January 2005)	<ul style="list-style-type: none"> • SSAP 30, <i>Business combinations</i> • Interpretation 12, <i>Business combinations</i> - Subsequent adjustment of fair values and goodwill initially reported • Interpretation 13, <i>Goodwill</i> - Continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves • Interpretation 15, <i>Business combinations</i> - 'Date of exchange' and fair value of equity instruments
4	Insurance contracts	-
5	Non-current assets held for sale and discontinued operations	SSAP 33, <i>Discontinuing operations</i>
HKFRS Int 1	Changes in existing decommissioning, restoration and similar liabilities (effective for annual periods beginning on or after 1 September 2004)	-
HKFRS Int 2	Members' shares in co-operative entities and similar instruments	-

Note 9: IASs 36 and 38, on impairments of assets and intangible assets, were amended during the IASB's IFRS 3, *Business combinations*, project, and issued at the same time as IFRS 3. The same amendments were made to SSAPs 31 and 29 and issued as HKASs 36 and 38 at the same time as HKFRS 3 (see table 2.3 above).

Table 2.6: Location and numbering of converged Interpretations

In addition to the interpretations mentioned above, the HKICPA has also converged its IFRS based Interpretations with those issued by the IASB (or its predecessor, the IASC), to match the exact approach and wording adopted by the IASB.

As a result, all Interpretations that have an equivalent Standing Interpretations Committee (SIC) Interpretation have been renamed as "HKAS Interpretations" with numbers corresponding to the equivalent SIC Interpretations. In addition, guidance from SIC Interpretations that was previously included in SSAPs when those SSAPs were adopted by the HKICPA has been removed from the text of the standard and re-issued as separate HKAS Interpretations. For example, IASB's SIC 12, *Consolidation - Special purpose entities*, has been removed from the text of the standard on consolidation (i.e. SSAP 32, now HKAS 27) and re-issued as a separate HKAS Interpretation 12, to match the IASB's approach.

The HKICPA has adopted a convention of using "HKFRS Interpretation" to indicate those interpretations adopted from IFRIC Interpretations, i.e. those issued by SIC's replacement, the International Financial Reporting Interpretations Committee. In practice, these may be interpretations of individual HKFRSs or HKASs. So far five have been issued (as listed on page 6), although only HKFRS-Int 1, *Changes in existing decommissioning, restoration and similar liabilities*, and HKFRS-Int 2, *Members' shares in co-operative entities and similar instruments*, as shown in table 2.5 above, are mandatory for periods beginning on or after 1 January 2005.

The table below lists all current interpretations which have been converged (ie re-formatted and/or re-named) without material change.

HKAS Interpretations		Text or Interpretations superseded without material change
10	Government assistance - No specific relation to operating activities (HKAS 20)	<i>Supersedes the last sentence of paragraph 5 of SSAP 35, Accounting for government grants and disclosure of government assistance</i>
12	Consolidation - Special purpose entities (note 10)	<i>Supersedes paragraphs 16 to 22 of SSAP 32, Consolidated financial statements and accounting for investments in subsidiaries</i>
13	Jointly controlled entities - Non-monetary contributions by venturers	<i>Supersedes paragraphs 39 to 41 of SSAP 21, Accounting for interests in joint ventures</i>

HKAS Interpretations		Text or Interpretations superseded without material change
15	Operating leases - Incentives (effective for lease terms beginning on or after 1 January 2005)	Supersedes paragraphs 27, 28, 48 to 49 of SSAP 14, <i>Leases</i>
25	Income taxes - Changes in the tax status of an enterprise or its shareholders	Interpretation 21, <i>Income taxes - Changes in the tax status of an enterprise or its shareholders</i>
27	Evaluating the substance of transactions involving the legal form of a lease	Interpretation 14, <i>Evaluating the substance of transactions involving the legal form of a lease</i>
29	Disclosure - Service concession arrangements	Interpretation 16, <i>Disclosure - Service concession arrangements</i>
31	Revenue - Barter transactions involving advertising services	Interpretation 17, <i>Revenue - Barter transactions involving advertising services</i>
32	Intangible assets - Web site costs	Interpretation 19, <i>Intangible assets - Web site costs</i>

Note 10: In February 2005, the HKICPA adopted the amendment made by the IASB to the scope of SIC 12, to include equity compensation plans within its scope, but exclude other long-term employee benefit plans to which HKAS 19 applies. This amendment is also effective for periods beginning on or after 1 January 2005.

Appendix 3: List of Financial Reporting Updates issued by KPMG

The following is a list of our FRUs issued to date, which highlights the developments of and standards issued under the final phase of HKICPA's IFRS convergence project.

Copies of the following FRUs are available from your usual KPMG contact, from our Information Services on 2522 6022 ext 7121 or from the virtual library at www.kpmg.com.hk.

Financial Reporting Updates		Issue date
16	Exposure draft on Interpretation 24, <i>Revenue - Pre-completion contracts for the sale of development properties</i>	February 2005
15	Early disclosure about the possible impact of adopting the new HKFRSs	January 2005
14	Revisions made to the standards on cash flow statements, borrowing costs, related party disclosures and interests in joint ventures	January 2005
13	Transitional provisions for HKASs 32 and 39	January 2005
12	Revisions made to the standard on leases	December 2004
11	Changes in accounting for investment properties	December 2004
10	HKFRS 5, <i>Non-current assets held for sale and discontinued operations</i>	November 2004
9	Changes in accounting for business combinations, including intangible assets and impairments	October 2004
8	HKFRS 2, <i>Share-based payment</i>	October 2004
7	New accounting standards for financial instruments	October 2004
6	Accounting for the depreciation of hotel properties and infrastructure facilities	September 2004
5	First batch of HKASs: Other miscellaneous revisions	July 2004
4	First batch of HKASs: Revised standards on subsidiaries and associates	July 2004
3	Overview of the first batch of HKASs and revisions to the general financial reporting standards	July 2004
2	Omnibus exposure draft of revised HKASs	June 2004
1	Final phase of the HKSA's IFRS convergence project	May 2004

Appendix 4: IASB's project plan as at 15 February 2005

The following table highlights the status of IASB's active projects as at 15 February 2005 and their future expected developments.

As mentioned earlier in this Update, HKFRSs are increasingly shaped by IFRSs and IASB's activities. While one might expect the IASB would slow down in its standard setting efforts after it has completed its "stable platform" for IFRS implementation by EU listed companies as from 1 January 2005, the following highlight of active IASB projects indicates that this might not be so. In particular, apart from improving existing standards, the IASB is also working on several joint projects with US Financial Accounting Standards Board (FASB) with the objective of reducing GAAP differences.

Further details of each of the following projects together with project summaries can be found on IASB's web site at www.iasb.org under "Current Issues" > "IASB Activities".

Our International Financial Reporting Group also issues two newsletters, IFRS in Brief and IFRS Briefing Sheets, which provide information on current developments in IFRSs. Copies of IFRS in Brief and IFRS Briefing Sheets are available from your usual KPMG contact, from our Information Services on 2522 6022 ext 7121 or the virtual library at www.kpmg.com.hk.

Notes:

Std - A standard is expected to be issued

DP - A discussion paper is expected to be issued

ED - An exposure draft is expected to be issued

Active agenda	1st quarter 2005	2nd quarter 2005	3rd & 4th quarter 2005	After 2005
Projects related to financial instruments:				
• Proposed amendments to IAS 39 "Financial instruments: Recognition and measurement" - The fair value option		Std		
• Proposed amendments to IAS 39 "Financial instruments: Recognition and measurement" - Cash flow hedge accounting of forecast intragroup transactions		Std		
• Proposed amendments to IAS 39 "Financial instruments: Recognition and measurement" and IFRS 4 "Insurance contracts" - Financial guarantee contracts and credit insurance		Std		
• ED 7 "Financial instruments: Disclosures"			Std	
• Financial instruments: Instruments puttable at fair value			ED	
Joint projects with the US Financial Accounting Standards Board (FASB):				
• Business combinations and related issues:				
- Phase II - Application of the purchase method	ED			
- Minority interests - amendment to IAS 27 "Consolidated and separate financial statements"	ED			
- Amendment to IAS 38 "Intangible assets"		ED		
• Short-term convergence of IFRSs and US GAAP:				
- Amendments to IAS 12 "Income taxes"			ED	
- Amendments to IAS 20 "Government grants and disclosure of government assistance"		ED		
- Replace of IAS 14 "Segment reporting" by a new IFRS			ED	
- Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets"	ED			
• Other joint projects:				
- Performance reporting/ reporting comprehensive income				DP
- Liabilities and revenue recognition			DP	
- Conceptual framework				DP
Other IASB projects:				
• Accounting standards for small and medium-sized entities				ED
• Consolidation possible joint project:				
- Control and special purpose entities				ED
• Phase II - Insurance contracts				DP
• Liabilities and equity				DP