

# **Hong Kong Accounting Standard 27**

## **Consolidated and Separate Financial Statements\***

\* This HKAS 27 is applicable for annual periods beginning on or after 1 January 2005 but before 1 July 2009. HKAS 27 (Revised) issued in March 2008 is applicable for annual periods beginning on or after 1 July 2009 and supersedes this HKAS 27.

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Hong Kong Accounting Standard 27 *Consolidated and Separate Financial Statements* (HKAS 27) is set out in paragraphs 1-45 and the Appendix. All the paragraphs have equal authority. HKAS 27 should be read in the context of the Basis for Conclusions, the *Preface to Hong Kong Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

# Hong Kong Accounting Standard 27

## Consolidated and Separate Financial Statements

### Scope

1. ***This Standard shall be applied in the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent.***
2. This Standard does not deal with methods of accounting for business combinations and their effects on consolidation, including goodwill arising on a business combination (see HKFRS 3 *Business Combinations*).
3. ***This Standard shall also be applied in accounting for investments in subsidiaries, jointly controlled entities and associates when an entity elects, or is required by local regulations, to present separate financial statements.***

~~3A. This Standard defines a subsidiary as "an entity that is controlled by another entity". For this purpose, control is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This definition of subsidiary could result in an investee entity being classified as a subsidiary when it does not meet the definition of a subsidiary as set out in section 2(4) of the Companies Ordinance.~~

~~3B. In issuing this Standard, the Hong Kong Society of Accountants has obtained legal advice on the legality of introducing a requirement in this Standard to consolidate certain entities which are not subsidiaries as defined by section 2(4) of the Companies Ordinance in group accounts of a Hong Kong incorporated company. The legal opinion states that the definitions of "subsidiary" and "holding company" in sections 2(4) and 2(7) of the Companies Ordinance are exhaustive for the purposes of group accounts as defined by section 124(1) of the Companies Ordinance. Accordingly, a Hong Kong incorporated company may not consolidate a company that does not meet the definition of a subsidiary in the Companies Ordinance.~~

~~3C. The principles laid down in this Standard are applicable to Hong Kong incorporated companies except to the extent that the legal constraints do not permit them to include in their consolidated financial statements an entity which does not meet the definition of a subsidiary in the Companies Ordinance. However, this Standard requires Hong Kong incorporated companies to disclose certain additional information to enable users of the consolidated financial statements to assess the effects as if this Standard had been fully complied with.~~

### Definitions

4. ***The following terms are used in this Standard with the meanings specified:***

***Consolidated financial statements are the financial statements of a group presented as those of a single economic entity.***

***Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.***

***The cost method is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.***

***A group is a parent and all its subsidiaries.***

***Minority interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.***

***A parent is an entity that has one or more subsidiaries.***

***Separate financial statements are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.***

***A subsidiary is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).***

5. A parent or its subsidiary may be an investor in an associate or a venturer in a jointly controlled entity. In such cases, consolidated financial statements prepared and presented in accordance with this Standard are also prepared so as to comply with HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.
6. For an entity described in paragraph 5, separate financial statements are those prepared and presented in addition to the financial statements referred to in paragraph 5. Separate financial statements need not be appended to, or accompany, those statements.
7. The financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a jointly controlled entity are not separate financial statements.
8. A parent that is exempted in accordance with paragraph 10 from presenting consolidated financial statements may present separate financial statements as its only financial statements.

## Presentation of Consolidated Financial Statements

9. ***A parent, other than a parent described in paragraph 10, shall present consolidated financial statements in which it consolidates its investments in subsidiaries in accordance with this Standard.***
10. ***A parent need not present consolidated financial statements if and only if<sup>1</sup>:***
  - (a) ***the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;***
  - (b) ***the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);***
  - (c) ***the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and***
  - (d) ***the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use that comply with Hong Kong Financial Reporting Standards or International Financial Reporting Standards.***
11. A parent that elects in accordance with paragraph 10 not to present consolidated financial statements, and presents only separate financial statements, complies with paragraphs 37-42.

<sup>1</sup> Section 124(2) of the Hong Kong Companies Ordinance (CO) permits a holding company not to prepare group accounts if the company is a wholly-owned subsidiary of another company at the end of its financial year. Accordingly, a Hong Kong incorporated parent company can only take advantage of the exemption under paragraph 10 of this Standard if it also satisfies the exemption allowed under Section 124(2) of the CO.

## Scope of Consolidated Financial Statements

12. ~~Consolidated financial statements shall include all subsidiaries of the parent, except those referred to in paragraph 16. Consolidated financial statements shall include all subsidiaries of the parent.~~<sup>2</sup>
13. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Control also exists when the parent owns half or less of the voting power of an entity when there is:<sup>3</sup>
- power over more than half of the voting rights by virtue of an agreement with other investors;
  - power to govern the financial and operating policies of the entity under a statute or an agreement;
  - power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or
  - power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.
14. An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity voting power or reduce another party's voting power over the financial and operating policies of another entity (potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by another entity, are considered when assessing whether an entity has the power to govern the financial and operating policies of another entity. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
15. In assessing whether potential voting rights contribute to control, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential voting rights, except the intention of management and the financial ability to exercise or convert.
16. ~~A subsidiary shall be excluded from consolidation when there is evidence that (a) control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its disposal within twelve months from acquisition and (b) management is actively seeking a buyer. Investments in such subsidiaries shall be classified as held for trading and accounted for in accordance with HKAS 39 Financial Instruments: Recognition and Measurement.~~~~[Deleted]~~
17. ~~When a subsidiary previously excluded from consolidation in accordance with paragraph 16 is not disposed of within twelve months, it shall be consolidated as from the date of acquisition (see HKAS 22). Financial statements for the periods since acquisition shall be restated.~~~~[Deleted]~~
18. ~~Exceptionally, an entity may have found a buyer for a subsidiary excluded from consolidation in accordance with paragraph 16, but may not have completed the sale within twelve months of acquisition because of the need for approval by regulators or others. The entity is not required to consolidate such a subsidiary if the sale is in process at the balance sheet date and there is no reason to believe that it will not be completed shortly after the balance sheet date.~~~~[Deleted]~~
19. A subsidiary is not excluded from consolidation simply because the investor is a venture capital organisation, mutual fund, unit trust or similar entity.

<sup>2</sup> If on acquisition a subsidiary meets the criteria to be classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations, it shall be accounted for in accordance with that Standard.

<sup>3</sup> See also HKAS-Int 12 Consolidation—Special Purpose Entities.

20. A subsidiary is not excluded from consolidation because its business activities are dissimilar from those of the other entities within the group. Relevant information is provided by consolidating such subsidiaries and disclosing additional information in the consolidated financial statements about the different business activities of subsidiaries. For example, the disclosures required by HKAS 14 *Segment Reporting* help to explain the significance of different business activities within the group.
21. A parent loses control when it loses the power to govern the financial and operating policies of an investee so as to obtain benefit from its activities. The loss of control can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when a subsidiary becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

### **Specific provisions for Hong Kong incorporated companies**

~~21A. In preparing consolidated financial statements of a Hong Kong incorporated company, only companies that fall within the definition of a subsidiary as set out in section 2(4) of the Companies Ordinance may be consolidated. Therefore, for the purposes of applying this Standard, Hong Kong incorporated companies should use the definition of a subsidiary as set out in section 2(4) of the Companies Ordinance where it conflicts with the definition in paragraph 4 above.~~

~~21B. In the circumstances where a company is a subsidiary as defined by section 2(4) of the Companies Ordinance but the parent does not have unilateral control over it, it should not be dealt with in the consolidated financial statements as a subsidiary. Where a subsidiary is excluded on the grounds of lack of effective control, it should be accounted for as a jointly controlled entity in accordance with HKAS 31 *Interests in Joint Ventures* or an associate in accordance with HKAS 28, *Investments in Associates*, as appropriate.~~

### **Consolidation Procedures**

22. In preparing consolidated financial statements, an entity combines the financial statements of the parent and its subsidiaries line by line by adding together like items of assets, liabilities, equity, income and expenses. In order that the consolidated financial statements present financial information about the group as that of a single economic entity, the following steps are then taken:
- (a) the carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated (see HKFRS 3, which describes the treatment of any resultant goodwill);
  - (b) minority interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and
  - (c) minority interests in the net assets of consolidated subsidiaries are identified separately from the parent shareholders' equity in them. Minority interests in the net assets consist of:
    - (i) the amount of those minority interests at the date of the original combination calculated in accordance with HKFRS 3; and
    - (ii) the minority's share of changes in equity since the date of the combination.
23. When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and minority interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.
- 24. Intragroup balances, transactions, income and expenses shall be eliminated in full.**
25. Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. HKAS 12 *Income Taxes* applies to temporary differences that arise from the elimination of profits and losses resulting from intragroup transactions.

26. ***The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date. When the reporting dates of the parent and a subsidiary are different, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.***
27. ***When, in accordance with paragraph 26, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a reporting date different from that of the parent, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the reporting date of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period.***
28. ***Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.***
29. If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.
30. ~~The income and expenses of a subsidiary are included in the consolidated financial statements from the date of acquisition as defined in HKAS 22.~~ The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date, as defined in HKFRS 3. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in equity in accordance with HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.
31. ***An investment in an entity shall be accounted for in accordance with HKAS 39 from the date that it ceases to be a subsidiary, provided that it does not become an associate as defined in HKAS 28 or a jointly controlled entity as described in HKAS 31.***
32. ***The carrying amount of the investment at the date that the entity ceases to be a subsidiary shall be regarded as the cost on initial measurement of a financial asset in accordance with HKAS 39.***
33. ***Minority interests shall be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the profit or loss of the group shall also be separately disclosed.***
34. The profit or loss is attributed to the parent shareholders and minority interests. Because both are equity, the amount attributed to minority interests is not income or expense.
35. Losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the subsidiary's equity. The excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.
36. If a subsidiary has outstanding cumulative preference shares that are held by minority interests and classified as equity, the parent computes its share of profits or losses after adjusting for the dividends on such shares, whether or not dividends have been declared.

## Accounting for Investments in Subsidiaries, Jointly Controlled Entities and Associates in Separate Financial Statements

37. ~~When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates shall be accounted for either:~~

~~(a) at cost, or~~

~~(b) in accordance with HKAS 39.~~

~~The same accounting shall be applied for each category of investments.~~

When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5 shall be accounted for either:

(a) at cost, or

(b) in accordance with HKAS 39.

The same accounting shall be applied for each category of investments. Investments in subsidiaries, jointly controlled entities and associates that are classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with HKFRS 5 shall be accounted for in accordance with that HKFRS.

38. This Standard does not mandate which entities produce separate financial statements available for public use. Paragraphs 37 and 39-42 apply when an entity prepares separate financial statements that comply with Hong Kong Financial Reporting Standards. The entity also produces consolidated financial statements available for public use as required by paragraph 9, unless the exemption provided in paragraph 10 is applicable.

39. ~~Investments in subsidiaries, jointly controlled entities and associates that are accounted for in accordance with HKAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements. Investments in jointly controlled entities and associates that are accounted for in accordance with HKAS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.~~

## Disclosure

40. *The following disclosures shall be made in consolidated financial statements:*

(a) ~~the fact that a subsidiary is not consolidated in accordance with paragraph 46;~~ ~~[Deleted]~~

(b) ~~summarised financial information of subsidiaries, either individually or in groups, that are not consolidated, including the amounts of total assets, total liabilities, revenues and profit or loss;~~ ~~[Deleted]~~

(c) *the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power;*

(d) *the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;*

(e) *the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; and*

- (f) *the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.*
41. *When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:*
- (a) *the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements that comply with Hong Kong Financial Reporting Standards or International Financial Reporting Standards have been produced for public use; and the address where those consolidated financial statements are obtainable;*
- (b) *a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and*
- (c) *a description of the method used to account for the investments listed under (b).*
42. *When a parent (other than a parent covered by paragraph 41), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose:*
- (a) *the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;*
- (b) *a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and*
- (c) *a description of the method used to account for the investments listed under (b);*
- and shall identify the financial statements prepared in accordance with paragraph 9 of this Standard, HKAS 28 and HKAS 31 to which they relate.*

### ~~Specific disclosures for Hong Kong incorporated companies~~

~~42A. — When a Hong Kong incorporated company holds an entity which would be a subsidiary as defined in paragraph 4 but is not accounted for as a subsidiary as a result of paragraph 21A, it should disclose in the notes details of the effect on the consolidated financial statements had the exemption given in paragraph 21A not applied.~~

## Effective Date

43. ~~Subject to paragraph 43B, a~~ **An** entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact and apply Hong Kong Accounting Standards Interpretation (HK(SIC)-Int 12) *Consolidation – Special Purpose Entities* at the same time.
- 43A. If an entity decides to apply this Standard for an earlier period, it is not required to apply all the HKASs with the same effective date for that same period. However, it is required to apply the amendments set out in the appendix on amendments to other pronouncements for that earlier period(s).

~~43B. — An entity shall apply paragraphs 3A-3C, 21A, 21B and 42A from the time when this Standard becomes effective (or earlier) and cease to apply those paragraphs for annual periods beginning on or after 1 January 2006 as a consequence of the Companies (Amendment) Ordinance 2005. This is because the Companies (Amendment) Ordinance~~

~~2005 will remove the legal constraint that prevents a Hong Kong incorporated company from consolidating in its group accounts a subsidiary that does not meet the legal definition of subsidiary with effect for annual periods beginning on or after 1 January 2006. If an entity has applied these paragraphs for an annual period beginning before 1 January 2006, it should restate the comparative amounts for the prior periods presented in the financial statements prepared for annual periods beginning on or after 1 January 2006 as if these paragraphs had not been applied.~~

## Withdrawal of Other Pronouncements

44. This Standard supersedes SSAP 32 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* (issued in 2001).
45. This Standard supersedes Interpretation 18 *Consolidation and Equity Method — Potential Voting Rights and Allocation of Ownership Interests*.

## Appendix

### Comparison with International Accounting Standards

This comparison appendix, which was prepared as at ~~24 November 2005-2004~~ and deals only with significant differences in the standards extant, is produced for information only and does not form part of the standards in HKAS 27.

The International Accounting Standard comparable with HKAS 27 is IAS 27 *Consolidated and Separate Financial Statements*.

~~There are no major textual differences between HKAS 27 and IAS 27.~~

~~The following sets out the major textual differences between HKAS 27 and IAS 27 and the reason for the differences.~~

<b>Differences</b>	<b>Reason for the Differences</b>
<p><del><b>Provisions for Hong Kong incorporated companies</b></del></p> <p><del>Additional paragraphs are inserted:</del></p> <p><del>a. to give the background on why Hong Kong incorporated companies should use the definition of subsidiary as set out in section 2(4) of the Companies Ordinance (see paragraphs 3A to 3C);</del></p> <p><del>b. to include specific provisions for Hong Kong incorporated companies in applying this Standard (see paragraphs 21A and 21B); and</del></p> <p><del>c. to require specific disclosures for Hong Kong incorporated companies (see paragraph 42A).</del></p> <p><del>Hong Kong incorporated companies should apply these additional paragraphs from the time when this Standard becomes effective (or earlier) and should cease to apply these additional paragraphs for annual periods beginning on or after 1 January 2006.</del></p>	<p><del>The Standard recognises that, in preparing consolidated financial statements, a company incorporated under the Hong Kong Companies Ordinance does <u>may</u> not consolidate an entity that does not meet the definition of a subsidiary under that Ordinance. The Standard also recognises that the above legal constraint will be removed by the Companies (Amendment) Ordinance 2005 with effect for annual periods beginning on or after 1 January 2006.</del></p> <p><del>The Standard also takes the view that in the circumstances where a company is a subsidiary as defined by the Companies Ordinance but the parent does not have unilateral control over it, it should not be dealt with in the consolidated financial statements as a subsidiary but as a jointly controlled entity.</del></p>

## Appendix

### Amendments to Other Pronouncements

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

\* \* \*

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

~~*As explained in the introduction to this Standard, the accounting standard and paragraph references that appear below may differ from those found in the existing SSAPs as they have taken into account the changes to be made to the name, number, paragraph numbering as well as appendix referencing of the existing SSAPs in order to conform to those of the equivalent IASs.*~~

~~A1. [Not used]~~

~~A2. [Not used]~~

~~A3. [Not used]~~

~~A4. In Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and Interpretations, applicable at December 2003, references to the current version of SSAP 32 Consolidated Financial Statements and Accounting for Investments in Subsidiaries are amended to HKAS 27 Consolidated and Separate Financial Statements.~~

## Appendix

### Amendments resulting from other HKFRSs

*The following sets out amendments required for this Standard 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 Standard and this appendix will be deleted. In the amended paragraphs shown below, new text is underlined and deleted text is struck through.*

#### HKFRS 8 Operating Segments (issued in March 2007) - effective for annual periods beginning on or after 1 January 2009

References to HKAS 14 *Segment Reporting* are amended to HKFRS 8 *Operating Segments* in:

- paragraph 20 of HKAS 27 *Consolidated and Separate Financial Statements*

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

In paragraph 4, in the definition of the *cost method*, 'accumulated profits' is amended to 'retained earnings'.

Paragraphs 26, 27, 30 and 40(e) are amended as follows:

**26** The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date. When the reporting date end of the reporting period of the parent is different from that of ~~and a subsidiary are different~~, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

**27** When ... the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a reporting date different from that of the parent, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the reporting date end of the reporting period of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference between ~~in the reporting dates~~ ends of the reporting periods shall be the same from period to period.

**30** The income ... recognised in equity other comprehensive income in accordance with HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, is ~~recognised in the~~ reclassified to consolidated ~~income statement~~ profit or loss as a reclassification adjustment as the gain or loss on the disposal of the subsidiary.

**40** The following disclosures ...

(e) ~~the reporting date end of the reporting period of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; ...~~

Paragraph 43C is added as follows:

**43C** HKAS 1 *Presentation of Financial Statements* (as revised in 2007) amended the terminology used throughout HKFRSs. In addition it amended paragraph 30. 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.

## Basis for Conclusions

*This Basis for Conclusions accompanies, but is not part of, HKAS 27.*

HKAS 27 is based on IAS 27, *Consolidated and Separate Financial Statements*. In approving HKAS 27, the Council of the Hong Kong ~~Society of Accountants~~ Institute of Certified Public Accountants considered and agreed with the IASB's basis for conclusions on IAS 27 (as revised 2003). Accordingly, there are no significant differences between HKAS 27 and IAS 27. The IASB's basis for conclusions is reproduced below for reference. The paragraph numbers of IAS 27 referred to below generally correspond with those in HKAS 27.

### Introduction

- BC1. This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries* in 2003. Individual Board members gave greater weight to some factors than to others.
- BC2. In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 27. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.
- BC3. Because the Board's intention was not to reconsider the fundamental approach to consolidation established in IAS 27, this Basis for Conclusions does not discuss requirements in IAS 27 that the Board has not reconsidered.

## Presentation of Consolidated Financial Statements

### Exemption from Preparing Consolidated Financial Statements

- BC4. Paragraph 7 of the previous version of IAS 27 required consolidated financial statements to be presented. However, paragraph 8 permitted a parent that is a wholly-owned or virtually wholly-owned subsidiary not to prepare consolidated financial statements. The Board considered whether to withdraw or amend this exemption from the general requirement.
- BC5. The Board decided to retain an exemption, so that entities in a group that are required by law to produce financial statements available for public use in accordance with International Financial Reporting Standards, in addition to consolidated financial statements, would not be unduly burdened.
- BC6. The Board noted that in some circumstances users can find sufficient information for their purposes regarding a subsidiary from either its separate financial statements or consolidated financial statements. In addition, the users of financial statements of a subsidiary often have, or can get access to, more information.
- BC7. Having agreed to retain an exemption, the Board decided to modify the circumstances in which an entity would be exempt and considered the following criteria.

#### *Unanimous agreement of the owners of the minority interests*

- BC8. The Exposure Draft proposed to extend the exemption to a parent that is not wholly-owned if the owners of the minority interest, including those not otherwise entitled to vote, unanimously agree.
- BC9. Some respondents disagreed with the proposal for unanimous agreement of minority shareholders to be a condition for exemption, in particular because of the practical difficulties in obtaining responses from all of those shareholders. The Board decided that the exemption

should be available to a parent that is not wholly-owned when the owners of the minority interests have been informed about, and do not object to, consolidated financial statements not being presented.

*Exemption available only to non-public entities*

- BC10. The Board believes that the information needs of users of financial statements of entities whose debt or equity instruments are traded in a public market are best served when investments in subsidiaries, jointly controlled entities and associates are accounted for in accordance with IASs 27, 28 *Investments in Associates* and 31 *Interests in Joint Ventures*. The Board therefore decided that the exemption from preparing such consolidated financial statements should not be available to such entities or to entities in the process of issuing instruments in a public market.
- BC11. The Board decided that a parent that meets the criteria for exemption from the requirement to prepare consolidated financial statements should, in its separate financial statements, account for those subsidiaries in the same way as other parents, venturers with interests in jointly controlled entities or investors in associates account for investments in their separate financial statements. The Board draws a distinction between accounting for such investments as equity investments and accounting for the economic entity that the parent controls. In relation to the former, the Board decided that each category of investment should be accounted for consistently.
- BC12. The Board decided that the same approach to accounting for investments in separate financial statements should apply irrespective of the circumstances for which they are prepared. Thus, parents that present consolidated financial statements, and those that do not because they are exempted, should present the same form of separate financial statements.

## Scope of Consolidated Financial Statements

### Scope Exclusions

- BC13. Paragraph 13 of the previous version of IAS 27 required a subsidiary to be excluded from consolidation when control is intended to be temporary or when the subsidiary operates under severe long-term restrictions.

*Temporary control*

- BC14. The Board considered whether to remove this scope exclusion and thereby converge with other standard-setters that had recently eliminated a similar exclusion. The Board decided to consider this issue as part of a comprehensive standard dealing with asset disposals. It decided to retain an exemption from consolidating a subsidiary when there is evidence that the subsidiary is acquired with the intention to dispose of it within twelve months and that management is actively seeking a buyer. The Board's Exposure Draft ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations* proposes to measure and present assets held for sale in a consistent manner irrespective of whether they are held by an investor or in a subsidiary. Therefore, ED 4 proposes to eliminate the exemption from consolidation when control is intended to be temporary and contains a draft consequential amendment to IAS 27 to achieve this\*.

*Severe long-term restrictions impairing ability to transfer funds to the parent*

- BC15. The Board decided to remove the exclusion of a subsidiary from consolidation when there are severe long-term restrictions that impair a subsidiary's ability to transfer funds to the parent. It did so because such circumstances may not preclude control. The Board decided that a parent, when assessing its ability to control a subsidiary, should consider restrictions on the transfer of funds from the subsidiary to the parent. In themselves, such restrictions do not preclude control.

*Venture capital organisations, private equity entities and similar organisations*

- BC16. The Exposure Draft of IAS 27 proposed to clarify that a subsidiary should not be excluded from consolidation simply because the entity is a venture capital organisation, mutual fund, unit trust

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\* In March 2004, the Board issued IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. IFRS 5 removes this scope exclusion and now eliminates the exemption from consolidation when control is intended to be temporary. See IFRS 5 Basis for Conclusions for further discussion.

or similar entity. Some respondents from the private equity industry disagreed with this proposed clarification. They argued that private equity entities should not be required to consolidate the investments they control in accordance with the requirements in IAS 27. They argued that they should measure those investments at fair value. Those respondents raised varying arguments—some based on whether control is exercised, some on the length of time that should be provided before consolidation is required, and some on whether consolidation was an appropriate basis for private equity entities or the type of investments they make.

- BC17. Some respondents also noted that the Board decided to exclude venture capital organisations and similar entities from the scope of IASs 28 and 31 when investments in associates or jointly controlled entities are measured at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. In the view of these respondents, the Board was proposing that similar assets should be accounted for in dissimilar ways.
- BC18. The Board did not accept these arguments. The Board noted that these issues are not specific to the private equity industry. It confirmed that a subsidiary should not be excluded from consolidation on the basis of the nature of the controlling entity. Consolidation is based on the parent's ability to control the investee, which captures both the power to control (ie the ability exists but it is not exercised) and actual control (ie the ability is exercised). Consolidation is triggered by control and should not be affected by whether management intends to hold an investment in an entity that it controls for the short term.
- BC19. The Board noted that the exception from the consolidation principle in the previous version of IAS 27, when control of a subsidiary is intended to be temporary, might have been misread or interpreted loosely. Some respondents to the Exposure Draft had interpreted "near future" as covering a period of up to five years. The Board decided to remove these words and to restrict the exception to subsidiaries acquired and held exclusively for disposal within twelve months, providing that management is actively seeking a buyer.
- BC20. —The Board did not agree that it should differentiate between types of entity, or types of investment, when applying a control model of consolidation. It also did not agree that management intention should be a determinant of control. Even if it had wished to make such differentiations, the Board did not see how or why it would be meaningful to distinguish private equity investors from other types of entities.
- BC21. The Board believes that the diversity of the investment portfolios of entities operating in the private equity sector is not different from the diversification of portfolios held by a conglomerate, which is an industrial group made up of entities that often have diverse and unrelated interests. The Board acknowledged that financial information about an entity's different types of products and services and its operations in different geographical areas—segment information—is relevant to assessing the risks and returns of a diversified or multinational entity and may not be determinable from the aggregated data presented in the consolidated balance sheet. The Board noted that IAS 14 *Segment Reporting* establishes principles for reporting segment information by entities whose equity or debt instruments are publicly traded, or any entity that discloses segment information voluntarily.
- BC22. The Board concluded that for investments under the control of private equity entities, users' information needs are best served by financial statements in which those investments are consolidated, thus revealing the extent of the operations of the entities they control. The Board noted that a parent can either present information about the fair value of those investments in the notes to the consolidated financial statements or prepare separate financial statements in addition to its consolidated financial statements, presenting those investments at cost or at fair value. By contrast, the Board decided that information needs of users of financial statements would not be well served if those controlling investments were measured only at fair value. This would leave unreported the assets and liabilities of a controlled entity. It is conceivable that an investment in a large, highly geared subsidiary would have only a small fair value. Reporting that value alone would preclude a user from being able to assess the financial position, results and cash flows of the group.

## Minority Interests

- BC23. Minority interest is defined in IAS 27 and ~~IAS 22~~ *IFRS 3 Business Combinations* as that part of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. Paragraph 26 of the previous version of IAS 27 required minority interests to be presented in the consolidated balance sheet separately from liabilities and the parent shareholders' equity.

- BC24. The Board decided to amend this requirement and to require minority interests to be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. The Board agreed that a minority interest is not a liability of a group because it does not meet the definition of a liability in the *Framework for the Preparation and Presentation of Financial Statements*.
- BC25. Paragraph 49(b) of the *Framework* states that a liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Paragraph 60 of the *Framework* further indicates that an essential characteristic of a liability is that the entity has a present obligation and that an obligation is a duty or responsibility to act or perform in a particular way. The Board noted that the existence of a minority interest in the net assets of a subsidiary does not give rise to a present obligation of the group, the settlement of which is expected to result in an outflow of economic benefits from the group.
- BC26. Rather, the Board noted that a minority interest represents the residual interest in the net assets of those subsidiaries held by some of the shareholders of the subsidiaries within the group, and therefore meets the *Framework's* definition of equity. Paragraph 49(c) of the *Framework* states that equity is the residual interest in the assets of the entity after deducting all its liabilities.
- BC27. The Board acknowledged that this decision gives rise to questions about the recognition and measurement of minority interests but it concluded that the proposed presentation is consistent with current standards and the *Framework* and would provide better comparability than presentation in the consolidated balance sheet with either liabilities or parent shareholders' equity. It decided that the recognition and measurement questions should be addressed as part of its project on business combinations.

### **Measurement of Investments in Subsidiaries, Jointly Controlled Entities and Associates in Separate Financial Statements**

- BC28. Paragraph 29 of the previous version of IAS 27 permitted investments in subsidiaries to be measured in any one of three ways in a parent's separate financial statements. These were cost, the equity method, or as available-for-sale financial assets in accordance with IAS 39. Paragraph 12 of the previous version of IAS 28 permitted the same choices for investments in associates in separate financial statements, and paragraph 38 of the previous version of IAS 31 mentioned that IAS 31 did not indicate a preference for any particular treatment for accounting for interests in jointly controlled entities in a venturer's separate financial statements. The Board decided to require use of cost or IAS 39 for all investments included in separate financial statements.
- BC29. Although the equity method would provide users with some profit and loss information similar to that obtained from consolidation, the Board noted that such information is reflected in the investor's economic entity financial statements and does not need to be provided to the users of its separate financial statements. For separate statements, the focus is upon the performance of the assets as investments. The Board concluded that separate financial statements prepared using either the fair value method in accordance with IAS 39 or the cost method would be relevant. Using the fair value method in accordance with IAS 39 would provide a measure of the economic value of the investments. Using the cost method can result in relevant information, depending on the purpose of preparing the separate financial statements. For example, they may be needed only by particular parties to determine the dividend income from subsidiaries.
- BC30. For investments in subsidiaries that are not consolidated in accordance with paragraph 16 of IAS 27 (ie because control is temporary), paragraph 30 of the previous version of IAS 27 permitted the same alternatives as were permitted in paragraph 29 of the previous version of IAS 27 for those that were consolidated—cost, the equity method, or as available-for-sale financial assets in accordance with IAS 39. The Board considered whether to eliminate one or more of these choices and decided that these subsidiaries should be accounted for consistently in both the consolidated and separate financial statements.

## **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.*

### **HKFRS 8 Operating Segments (issued in March 2007) – effective for annual periods beginning on or after 1 January 2009**

Paragraph BC21 is footnoted as follows:

In 2006 IAS 14 Segment Reporting was replaced by IFRS 8 Operating Segments.

## Dissenting Opinion

- DO1. Mr Yamada dissents from this Standard because he believes that the change in classification of minority interests in the consolidated balance sheet, that is to say, the requirement that it be shown as equity, should not be made as part of the Improvements project. He agrees that minority interests do not meet the definition of a liability under the *Framework for the Preparation and Presentation of Financial Statements*, as stated in paragraph BC25 of the Basis for Conclusions, and that the current requirement, for minority interests to be presented separately from liabilities and the parent shareholders' equity, is not desirable. However, he does not believe that this requirement should be altered at this stage. He believes that before making the change in classification, which will have a wide variety of impacts on current consolidation practices, various issues related to this change need to be considered comprehensively by the Board. These include consideration of the objectives of consolidated financial statements and the accounting procedures that should flow from those objectives. Even though the Board concluded as noted in paragraph BC27, he believes that the decision related to the classification of minority interests should not be made until such a comprehensive consideration of recognition and measurement is completed.
- DO2. Traditionally, there are two views of the objectives of consolidated financial statements; they are implicit in the parent company view and the economic entity view. Mr Yamada believes that the objectives, that is to say, what information should be provided and to whom, should be considered by the Board before it makes its decision on the classification of minority interests in IAS 27. He is of the view that the Board is taking the economic entity view without giving enough consideration to this fundamental issue.
- DO3. Step acquisitions are being discussed in the second phase of the Business Combinations project, which is not yet finalised at the time of finalising IAS 27 under the Improvements project. When the ownership interest of the parent increases, the Board has tentatively decided that the difference between the consideration paid by the parent to minority interests and the carrying value of the ownership interests acquired by the parent is recognised as part of equity, which is different from the current practice of recognising a change in the amount of goodwill. If the parent retains control of a subsidiary but its ownership interest decreases, the difference between the consideration received by the parent and the carrying value of the ownership interests transferred is also recognised as part of equity, which is different from the current practice of recognising a gain or a loss. Mr Yamada believes that the results of this discussion are predetermined by the decision related to the classification of minority interests as equity. The changes in accounting treatments are fundamental and he believes that the decision on which of the two views should govern the consolidated financial statements should be taken only after careful consideration of the ramifications. He believes that the amendment of IAS 27 relating to the classification of minority interests should not be made before completion of the second phase of the Business Combinations project.

## Implementation Guidance

### **Guidance on implementing HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.**

*This guidance accompanies HKAS 27, HKAS 28 and HKAS 31, but is not part of them.*

#### **Consideration of Potential Voting Rights**

##### **Introduction**

IG1. Paragraphs 14, 15 and 23 of HKAS 27 *Consolidated and Separate Financial Statements* and paragraphs 8 and 9 of HKAS 28 *Investments in Associates* require an entity to consider the existence and effect of all potential voting rights that are currently exercisable or convertible. They also require all facts and circumstances that affect potential voting rights to be examined, except the intention of management and the financial ability to exercise or convert potential voting rights. Because the definition of joint control in paragraph 3 of HKAS 31 *Interests in Joint Ventures* depends upon the definition of control, and because that Standard is linked to HKAS 28 for application of the equity method, this guidance is also relevant to HKAS 31.

##### **Guidance**

IG2. Paragraph 4 of HKAS 27 defines control as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Paragraph 2 of HKAS 28 defines significant influence as the power to participate in the financial and operating policy decisions of the investee but not to control those policies. Paragraph 3 of HKAS 31 defines joint control as the contractually agreed sharing of control over an economic activity. In these contexts, power refers to the ability to do or effect something. Consequently, an entity has control, joint control or significant influence when it currently has the ability to exercise that power, regardless of whether control, joint control or significant influence is actively demonstrated or is passive in nature. Potential voting rights held by an entity that are currently exercisable or convertible provide this ability. The ability to exercise power does not exist when potential voting rights lack economic substance (eg the exercise price is set in a manner that precludes exercise or conversion in any feasible scenario). Consequently, potential voting rights are considered when, in substance, they provide the ability to exercise power.

IG3. Control and significant influence also arise in the circumstances described in paragraph 13 of HKAS 27 and paragraphs 6 and 7 of HKAS 28 respectively, which include consideration of the relative ownership of voting rights. HKAS 31 depends on HKAS 27 and HKAS 28 and references to HKAS 27 and HKAS 28 from this point onwards should be read as being relevant to HKAS 31. Nevertheless it should be borne in mind that joint control involves contractual sharing of control and this contractual aspect is likely to be the critical determinant. Potential voting rights such as share call options and convertible debt are capable of changing an entity's voting power over another entity—if the potential voting rights are exercised or converted, then the relative ownership of the ordinary shares carrying voting rights changes. Consequently, the existence of control (the definition of which permits only one entity to have control of another entity) and significant influence are determined only after assessing all the factors described in paragraph 13 of HKAS 27 and paragraphs 6 and 7 of HKAS 28 respectively, and considering the existence and effect of potential voting rights. In addition, the entity examines all facts and circumstances that affect potential voting rights except the intention of management and the financial ability to exercise or convert. The intention of management does not affect the existence of power and the financial ability of an entity to exercise or convert is difficult to assess.

IG4. An entity may initially conclude that it controls or significantly influences another entity after considering the potential voting rights that it can currently exercise or convert. However, the entity may not control or significantly influence the other entity when potential voting rights held by other parties are also currently exercisable or convertible. Consequently, an entity considers all potential voting rights held by it and by other parties that are currently exercisable or convertible when determining whether it controls or significantly influences another entity. For

example, all share call options are considered, whether held by the entity or another party. Furthermore, the definition of control in paragraph 4 of HKAS 27 permits only one entity to have control of another entity. Therefore, when two or more entities each hold significant voting rights, both actual and potential, the factors in paragraph 13 of HKAS 27 are reassessed to determine which entity has control.

- IG5. The proportion allocated to the parent and minority interests in preparing consolidated financial statements in accordance with HKAS 27, and the proportion allocated to an investor that accounts for its investment using the equity method in accordance with HKAS 28, are determined solely on the basis of present ownership interests. The proportion allocated is determined taking into account the eventual exercise of potential voting rights and other derivatives that, in substance, give access at present to the economic benefits associated with an ownership interest.
- IG6. In some circumstances an entity has, in substance, a present ownership as a result of a transaction that gives it access to the economic benefits associated with an ownership interest. In such circumstances, the proportion allocated is determined taking into account the eventual exercise of those potential voting rights and other derivatives that give the entity access to the economic benefits at present.
- IG7. HKAS 39 *Financial Instruments: Recognition and Measurement* does not apply to interests in subsidiaries, associates and jointly controlled entities that are consolidated, accounted for using the equity method or proportionately consolidated in accordance with HKAS 27, HKAS 28 and HKAS 31 respectively. When instruments containing potential voting rights in substance currently give access to the economic benefits associated with an ownership interest, and the investment is accounted for in one of the above ways, the instruments are not subject to the requirements of HKAS 39. In all other cases, instruments containing potential voting rights are accounted for in accordance with HKAS 39.

### Illustrative Examples

- IG8. The five examples below each illustrate one aspect of a potential voting right. In applying HKAS 27, HKAS 28 or HKAS 31, an entity considers all aspects. The existence of control, significant influence and joint control can be determined only after assessing the other factors described in HKAS 27, HKAS 28 and HKAS 31. For the purpose of these examples, however, those other factors are presumed not to affect the determination, even though they may affect it when assessed.

#### *Example 1: Options are out of the money*

Entities A and B own 80 per cent and 20 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity A sells one-half of its interest to Entity D and buys call options from Entity D that are exercisable at any time at a premium to the market price when issued, and if exercised would give Entity A its original 80 per cent ownership interest and voting rights.

Though the options are out of the money, they are currently exercisable and give Entity A the power to continue to set the operating and financial policies of Entity C, because Entity A could exercise its options now. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of HKAS 27, are considered and it is determined that Entity A controls Entity C.

#### *Example 2: Possibility of exercise or conversion*

Entities A, B and C own 40 per cent, 30 per cent and 30 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entity A also owns call options that are exercisable at any time at the fair value of the underlying shares and if exercised would give it an additional 20 per cent of the voting rights in Entity D and reduce Entity B's and Entity C's interests to 20 per cent each. If the options are exercised, Entity A will have control over more than one-half of the voting power. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of HKAS 27 and paragraphs 6 and 7 of HKAS 28, are considered and it is determined that Entity A controls Entity D.

*Example 3: Other rights that have the potential to increase an entity's voting power or reduce another entity's voting power*

Entities A, B and C own 25 per cent, 35 per cent and 40 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities B and C also have share warrants that are exercisable at any time at a fixed price and provide potential voting rights. Entity A has a call option to purchase these share warrants at any time for a nominal amount. If the call option is exercised, Entity A would have the potential to increase its ownership interest, and thereby its voting rights, in Entity D to 51 per cent (and dilute Entity B's interest to 23 per cent and Entity C's interest to 26 per cent).

Although the share warrants are not owned by Entity A, they are considered in assessing control because they are currently exercisable by Entities B and C. Normally, if an action (eg purchase or exercise of another right) is required before an entity has ownership of a potential voting right, the potential voting right is not regarded as held by the entity. However, the share warrants are, in substance, held by Entity A, because the terms of the call option are designed to ensure Entity A's position. The combination of the call option and share warrants gives Entity A the power to set the operating and financial policies of Entity D, because Entity A could currently exercise the option and share warrants. The other factors described in paragraph 13 of HKAS 27 and paragraphs 6 and 7 of HKAS 28 are also considered, and it is determined that Entity A, not Entity B or C, controls Entity D.

*Example 4: Management intention*

Entities A, B and C each own 33 $\frac{1}{3}$  per cent of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity D. Entities A, B and C each have the right to appoint two directors to the board of Entity D. Entity A also owns call options that are exercisable at a fixed price at any time and if exercised would give it all the voting rights in Entity D. The management of Entity A does not intend to exercise the call options, even if Entities B and C do not vote in the same manner as Entity A. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of HKAS 27 and paragraphs 6 and 7 of HKAS 28, are considered and it is determined that Entity A controls Entity D. The intention of Entity A's management does not influence the assessment.

*Example 5: Financial ability*

Entities A and B own 55 per cent and 45 per cent respectively of the ordinary shares that carry voting rights at a general meeting of shareholders of Entity C. Entity B also holds debt instruments that are convertible into ordinary shares of Entity C. The debt can be converted at a substantial price, in comparison with Entity B's net assets, at any time and if converted would require Entity B to borrow additional funds to make the payment. If the debt were to be converted, Entity B would hold 70 per cent of the voting rights and Entity A's interest would reduce to 30 per cent.

Although the debt instruments are convertible at a substantial price, they are currently convertible and the conversion feature gives Entity B the power to set the operating and financial policies of Entity C. The existence of the potential voting rights, as well as the other factors described in paragraph 13 of HKAS 27, are considered and it is determined that Entity B, not Entity A, controls Entity C. The financial ability of Entity B to pay the conversion price does not influence the assessment.

## Table of Concordance

This table shows how the contents of the superseded SSAP 32 and the current HKAS 27 correspond. Paragraphs are treated as corresponding if they broadly address the same matter even though the guidance may differ.

The table also shows how the requirements of Interpretation 18 have been incorporated into the current HKAS 27.

Superseded SSAP 32 paragraph	Current HKAS 27 paragraph
1	1
2	3
3	3A
4	3B
5	3C
6	None
7	2
8	4
9	9
10	10, 41
11	None
12	None
13	12
14	13
15	None
16-22	HKAS-Int-12
23	16
24-25	17-19
26	20
27	21A
28	21B
29	22
30	None
31	24
32	25
33	26
34	27
35	28
36	29

Superseded SSAP 32 paragraph or Interpretation	Current HKAS 27 paragraph
37	30
38	31
39	32
40	33
41	35
42	36
43	37
44	39
45	40
46	42A
47	43
Interpretation 818	14, 15
None	5-8
None	11
None	21
None	23
None	34
None	38
None	41, 42
None	44, 45