

Hong Kong Accounting Standard 1

Presentation of Financial Statements*

* This HKAS 1 is applicable for annual periods beginning on or after 1 January 2005 but before 1 January 2009. HKAS 1 (Revised) issued in December 2007 is applicable for annual periods beginning on or after 1 January 2009 and supersedes this HKAS 1.

COPYRIGHT

© Copyright 2008 Hong Kong Institute of Certified Public Accountants

This Hong Kong Financial Reporting Standard contains International Accounting Standards Committee Foundation copyright material. Reproduction within Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and inquiries concerning reproduction and rights for commercial purposes within Hong Kong should be addressed to the Director, Operation and Finance, Hong Kong Institute of Certified Public Accountants, 37/F., Wu Chung House, 213 Queen's Road East, Wanchai, Hong Kong.

All rights in this material outside of Hong Kong are reserved by International Accounting Standards Committee Foundation. Reproduction of Hong Kong Financial Reporting Standards outside of Hong Kong in unaltered form (retaining this notice) is permitted for personal and non-commercial use only. Further information and requests for authorisation to reproduce for commercial purposes outside Hong Kong should be addressed to the International Accounting Standards Committee Foundation at www.iasb.org.

Contents

Hong Kong Accounting Standard 1

Presentation of Financial Statements

	<i>paragraphs</i>
INTRODUCTION	IN1-IN19
OBJECTIVE	1
SCOPE	2-6
PURPOSE OF FINANCIAL STATEMENTS	7
COMPONENTS OF FINANCIAL STATEMENTS	8-10
DEFINITIONS	11-12
OVERALL CONSIDERATIONS	13-41
True and Fair View and Compliance with HKFRSs	13-22
Going Concern	23-24
Accrual Basis of Accounting	25-26
Consistency of Presentation	27-28
Materiality and Aggregation	29-31
Offsetting	32-35
Comparative Information	36-41
STRUCTURE AND CONTENT	42-126
Introduction	42-43
Identification of the Financial Statements	44-48
Reporting Period	49-50
Balance Sheet	51-77
Current/Non-current Distinction	51-56
Current Assets	57-59
Current Liabilities	60-67
Information to be Presented on the Face of the Balance Sheet	68-73
Information to be Presented either on the Face of the Balance Sheet or in the Notes	74-77

Income Statement	78-95
Profit or Loss for the Period	78-80
Information to be Presented on the Face of the Income Statement	81-85
Information to be Presented either on the Face of the Income Statement or in the Notes	86-95
Statement of Changes in Equity	96-101
Cash Flow Statement	102
Notes	103-126
Structure	103-107
Disclosure of Accounting Policies	108-115
Key Sources of Estimation Uncertainty	116-124
<u>Capital</u>	<u>124A-124C</u>
Other Disclosures	125-126
EFFECTIVE DATE	127-127A
WITHDRAWAL OF OTHER PRONOUNCEMENTS	128
APPENDIX:	
Comparison with International Accounting Standards	
Notes on Legal Requirements in Hong Kong	
Amendments to Other Pronouncements	
BASIS FOR CONCLUSIONS	
<u>DISSENTING OPINION</u>	
IMPLEMENTATION GUIDANCE	
EXAMPLE – DISCLOSURE OF PROPOSED DIVIDEND	

Hong Kong Accounting Standard 1 *Presentation of Financial Statements* (HKAS 1) is set out in paragraphs 1-128 and the Appendix. All the paragraphs have equal authority. HKAS 1 should be read in the context of its objective and 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 1

Presentation of Financial Statements

Objective

1. The objective of this Standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. To achieve this objective, this Standard sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content. The recognition, measurement and disclosure of specific transactions and other events are dealt with in other Standards and in Interpretations.

Scope

2. ***This Standard shall be applied to all general purpose financial statements prepared and presented in accordance with Hong Kong Financial Reporting Standards (HKFRSs).***
3. General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs*. General purpose financial statements include those that are presented separately or within another public document such as an annual report or a prospectus. This Standard does not apply to the structure and content of condensed interim financial statements prepared in accordance with HKAS 34 *Interim Financial Reporting*. However, paragraphs 13-41 apply to such financial statements. This Standard applies equally to all entities and whether or not they need to prepare consolidated financial statements or separate financial statements, as defined in HKAS 27 *Consolidated and Separate Financial Statements*.
- 4^φ. ~~HKAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* specifies additional requirements for banks and similar financial institutions that are consistent with the requirements of this Standard. [Deleted]~~
5. This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. Entities with not-for-profit activities in the private sector, public sector or government seeking to apply this Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.
6. Similarly, entities that do not have equity as defined in HKAS 32 *Financial Instruments: Disclosure and Presentation* (eg some mutual funds) and entities whose share capital is not equity (eg some co-operative entities) may need to adapt the presentation in the financial statements of members' or unitholders' interests.

* An example of tailored reports are those accounts prepared by certain private companies taking advantage of the exemptions granted by Section 141D of the Companies Ordinance.

^φ Effective for annual periods beginning on or after 1 January 2007.

Purpose of Financial Statements

7. Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:
- (a) assets;
 - (b) liabilities;
 - (c) equity;
 - (d) income and expenses, including gains and losses;
 - (e) other changes in equity; and
 - (f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty.

Components of Financial Statements

8. *A complete set of financial statements comprises:*
- (a) *a balance sheet;*
 - (b) *an income statement;*
 - (c) *a statement of changes in equity showing either:*
 - (i) *all changes in equity, or*
 - (ii) *changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;*
 - (d) *a cash flow statement; and*
 - (e) *notes, comprising a summary of significant accounting policies and other explanatory notes.*
9. Many entities present, outside the financial statements, a financial review by management that describes and explains the main features of the entity's financial performance and financial position and the principal uncertainties it faces. Such a report may include a review of:

- (a) the main factors and influences determining financial performance, including changes in the environment in which the entity operates, the entity's response to those changes and their effect, and the entity's policy for investment to maintain and enhance financial performance, including its dividend policy;
 - (b) the entity's sources of funding and its targeted ratio of liabilities to equity; and
 - (c) the entity's resources not recognised in the balance sheet in accordance with HKFRSs.
10. Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of HKFRSs.

Definitions

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

Impracticable - *Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.*

Hong Kong Financial Reporting Standards (HKFRSs) *are Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) (formerly known as Hong Kong Society of Accountants (HKSA)). They comprise:*

- (a) *Hong Kong Financial Reporting Standards;*
- (b) *Hong Kong Accounting Standards; and*
- (c) *Interpretations.*

Material - *Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.*

Notes *contain information in addition to that presented in the balance sheet, income statement, statement of changes in equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.*

12. Assessing whether an omission or misstatement could influence economic decisions of users, and so be material, requires consideration of the characteristics of those users. The *Framework for the Preparation and Presentation of Financial Statements* states in paragraph 25 that "users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence." Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making economic decisions.

Overall Considerations

True and Fair View and Compliance with HKFRSs*

13. *Financial statements shall give a true and fair view of the financial position, financial performance and cash flows of an entity. True and fair view requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of HKFRSs, with additional disclosure when necessary, is presumed to result in financial statements that give a true and fair view.*
14. *An entity whose financial statements comply with HKFRSs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with HKFRSs unless they comply with all the requirements of HKFRSs.*
15. In virtually all circumstances, a true and fair view is achieved by compliance with applicable HKFRSs. A true and fair view also requires an entity:
- (a) to select and apply accounting policies in accordance with HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. HKAS 8 sets out a hierarchy of authoritative guidance that management considers in the absence of a Standard or an Interpretation that specifically applies to an item.
 - (b) to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
 - (c) to provide additional disclosures when compliance with the specific requirements in HKFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
16. *Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material.*
17. *In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the Framework, the entity shall depart from that requirement in the manner set out in paragraph 18 if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure.*
18. *When an entity departs from a requirement of a Standard or an Interpretation in accordance with paragraph 17, it shall disclose:*
- (a) *that management has concluded that the financial statements give a true and fair view of the entity's financial position, financial performance and cash flows;*

* Based on the communication with International Accounting Standards Board, the HKICPA believes that the term "true and fair view" and the term "fair presentation" used in IAS 1, *Presentation of Financial Statements* are equivalent terms. Please also refer to paragraph 46 of the Framework which contains certain references to the two terms.

- (b) *that it has complied with applicable Standards and Interpretations, except that it has departed from a particular requirement to give a true and fair view;*
 - (c) *the title of the Standard or Interpretation from which the entity has departed, the nature of the departure, including the treatment that the Standard or Interpretation would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in the Framework, and the treatment adopted; and*
 - (d) *for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.*
19. *When an entity has departed from a requirement of a Standard or an Interpretation in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 18(c) and (d).*
20. Paragraph 19 applies, for example, when an entity departed in a prior period from a requirement in a Standard or an Interpretation for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.
21. *In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the Framework, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:*
- (a) *the title of the Standard or Interpretation in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in the Framework; and*
 - (b) *for each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to give a true and fair view.*
22. For the purpose of paragraphs 17-21, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence economic decisions made by users of financial statements. When assessing whether complying with a specific requirement in a Standard or an Interpretation would be so misleading that it would conflict with the objective of financial statements set out in the *Framework*, management considers:
- (a) why the objective of financial statements is not achieved in the particular circumstances; and

- (b) how the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements set out in the *Framework*.

Going Concern

23. *When preparing financial statements, management shall make an assessment of an entity's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.*
24. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the balance sheet date. The degree of consideration depends on the facts in each case. When an entity has a history of profitable operations and ready access to financial resources, a conclusion that the going concern basis of accounting is appropriate may be reached without detailed analysis. In other cases, management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Accrual Basis of Accounting

25. *An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting.*
26. When the accrual basis of accounting is used, items are recognised as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the *Framework*.

Consistency of Presentation

27. *The presentation and classification of items in the financial statements shall be retained from one period to the next unless:*
- (a) *it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in HKAS 8; or*
- (b) *a Standard or an Interpretation requires a change in presentation.*

28. A significant acquisition or disposal, or a review of the presentation of the financial statements, might suggest that the financial statements need to be presented differently. An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraphs 38 and 39.

Materiality and Aggregation

29. *Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.*
30. Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.
31. Applying the concept of materiality means that a specific disclosure requirement in a Standard or an Interpretation need not be satisfied if the information is not material.

Offsetting

32. *Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by a Standard or an Interpretation.*
33. It is important that assets and liabilities, and income and expenses, are reported separately. Offsetting in the income statement or the balance sheet, except when offsetting reflects the substance of the transaction or other event, detracts from the ability of users both to understand the transactions, other events and conditions that have occurred and to assess the entity's future cash flows. Measuring assets net of valuation allowances—for example, obsolescence allowances on inventories and doubtful debts allowances on receivables—is not offsetting.
34. HKAS 18 *Revenue* defines revenue and requires it to be measured at the fair value of the consideration received or receivable, taking into account the amount of any trade discounts and volume rebates allowed by the entity. An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example:
- (a) gains and losses on the disposal of non-current assets, including investments and operating assets, are reported by deducting from the proceeds on disposal the carrying amount of the asset and related selling expenses; and

- (b) expenditure related to a provision that is recognised in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and reimbursed under a contractual arrangement with a third party (for example, a supplier's warranty agreement) may be netted against the related reimbursement.
35. In addition, gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses or gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.

Comparative Information

36. ***Except when a Standard or an Interpretation permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.***
37. In some cases, narrative information provided in the financial statements for the previous period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the last balance sheet date and is yet to be resolved, are disclosed in the current period. Users benefit from information that the uncertainty existed at the last balance sheet date, and about the steps that have been taken during the period to resolve the uncertainty.
38. ***When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose:***
- (a) *the nature of the reclassification;*
 - (b) *the amount of each item or class of items that is reclassified; and*
 - (c) *the reason for the reclassification.*
39. ***When it is impracticable to reclassify comparative amounts, an entity shall disclose:***
- (a) *the reason for not reclassifying the amounts; and*
 - (b) *the nature of the adjustments that would have been made if the amounts had been reclassified.*
40. Enhancing the inter-period comparability of information assists users in making economic decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances, it is impracticable to reclassify comparative information for a particular prior period to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.
41. HKAS 8 deals with the adjustments to comparative information required when an entity changes an accounting policy or corrects an error.

Structure and Content

Introduction

42. This Standard requires particular disclosures on the face of the balance sheet, income statement and statement of changes in equity and requires disclosure of other line items either on the face of those statements or in the notes. HKAS 7 sets out requirements for the presentation of a cash flow statement.
43. This Standard sometimes uses the term ‘disclosure’ in a broad sense, encompassing items presented on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement, as well as in the notes. Disclosures are also required by other Standards and Interpretations. Unless specified to the contrary elsewhere in this Standard, or in another Standard or Interpretation, such disclosures are made either on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement (whichever is relevant), or in the notes.

Identification of the Financial Statements

44. *The financial statements shall be identified clearly and distinguished from other information in the same published document.*
45. HKFRSs apply only to financial statements, and not to other information presented in an annual report or other document. Therefore, it is important that users can distinguish information that is prepared using HKFRSs from other information that may be useful to users but is not the subject of those requirements.
46. *Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:*
- (a) *the name of the reporting entity or other means of identification, and any change in that information from the preceding balance sheet date;*
 - (b) *whether the financial statements cover the individual entity or a group of entities;*
 - (c) *the balance sheet date or the period covered by the financial statements, whichever is appropriate to that component of the financial statements;*
 - (d) *the presentation currency, as defined in HKAS 21 The Effects of Changes in Foreign Exchange Rates; and*
 - (e) *the level of rounding used in presenting amounts in the financial statements.*
47. The requirements in paragraph 46 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements. Judgement is required in determining the best way of presenting such information. For example, when the financial statements are presented electronically, separate pages are not always used; the above items are then presented frequently enough to ensure a proper understanding of the information included in the financial statements.

48. Financial statements are often made more understandable by presenting information in thousands or millions of units of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Reporting Period

49. *Financial statements shall be presented at least annually. When an entity's balance sheet date changes and the annual financial statements are presented for a period longer or shorter than one year, an entity shall disclose, in addition to the period covered by the financial statements:*
- (a) *the reason for using a longer or shorter period; and*
 - (b) *the fact that comparative amounts for the income statement, statement of changes in equity, cash flow statement and related notes are not entirely comparable.*
50. Normally, financial statements are consistently prepared covering a one-year period. However, for practical reasons, some entities prefer to report, for example, for a 52-week period. This Standard does not preclude this practice, because the resulting financial statements are unlikely to be materially different from those that would be presented for one year.

Balance Sheet

Current/Non-current Distinction

51. *An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet in accordance with paragraphs 57-67 except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities shall be presented broadly in order of liquidity.*
52. *Whichever method of presentation is adopted, for each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve months after the balance sheet date and (b) more than twelve months after the balance sheet date, an entity shall disclose the amount expected to be recovered or settled after more than twelve months.*
53. When an entity supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the balance sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.
54. For some entities, such as financial institutions, a presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and is more relevant than a current/non-current presentation because the entity does not supply goods or services within a clearly identifiable operating cycle.

55. In applying paragraph 51, an entity is permitted to present some of its assets and liabilities using a current/non-current classification and others in order of liquidity when this provides information that is reliable and is more relevant. The need for a mixed basis of presentation might arise when an entity has diverse operations.
56. Information about expected dates of realisation of assets and liabilities is useful in assessing the liquidity and solvency of an entity. HKAS 32 HKFRS 7 Financial Instruments: Disclosure* requires disclosure of the maturity dates of financial assets and financial liabilities. Financial assets include trade and other receivables, and financial liabilities include trade and other payables. Information on the expected date of recovery and settlement of non-monetary assets and liabilities such as inventories and provisions is also useful, whether or not assets and liabilities are classified as current or non-current. For example, an entity discloses the amount of inventories that are expected to be recovered more than twelve months after the balance sheet date.

Current Assets

57. *An asset shall be classified as current when it satisfies any of the following criteria:*

- (a) *it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;*
- (b) *it is held primarily for the purpose of being traded;*
- (c) *it is expected to be realised within twelve months after the balance sheet date; or*
- (d) *it is cash or a cash equivalent (as defined in HKAS 7 Cash Flow Statements) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date.*

All other assets shall be classified as non-current.

58. This Standard uses the term 'non-current' to include tangible, intangible and financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
59. The operating cycle of an entity is the time between the acquisition of assets for processing and their realisation in cash or cash equivalents. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months. Current assets include assets (such as inventories and trade receivables) that are sold, consumed or realised as part of the normal operating cycle even when they are not expected to be realised within twelve months after the balance sheet date. Current assets also include assets held primarily for the purpose of being traded (financial assets within this category are classified as held for trading in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement*) and the current portion of non-current financial assets.

Current Liabilities

60. *A liability shall be classified as current when it satisfies any of the following criteria:*

- (a) *it is expected to be settled in the entity's normal operating cycle;*
- (b) *it is held primarily for the purpose of being traded;*

* Effective for annual periods beginning on or after 1 January 2007.

- (c) *it is due to be settled within twelve months after the balance sheet date; or*
- (d) *the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.*

All other liabilities shall be classified as non-current.

61. Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the balance sheet date. The same normal operating cycle applies to the classification of an entity's assets and liabilities. When the entity's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.
62. Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the balance sheet date or held primarily for the purpose of being traded. Examples are financial liabilities classified as held for trading in accordance with HKAS 39, bank overdrafts, and the current portion of non-current financial liabilities, dividends payable, income taxes and other non-trade payables. Financial liabilities that provide financing on a long-term basis (ie are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within twelve months after the balance sheet date are non-current liabilities, subject to paragraphs 65 and 66.
63. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the balance sheet date, even if:
 - (a) the original term was for a period longer than twelve months; and
 - (b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue.
64. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the balance sheet date under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.
65. When an entity breaches an undertaking under a long-term loan agreement on or before the balance sheet date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the balance sheet date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the balance sheet date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.
66. However, the liability is classified as non-current if the lender agreed by the balance sheet date to provide a period of grace ending at least twelve months after the balance sheet date, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

67. In respect of loans classified as current liabilities, if the following events occur between the balance sheet date and the date the financial statements are authorised for issue, those events qualify for disclosure as non-adjusting events in accordance with HKAS 10 *Events after the Balance Sheet Date*:
- (a) refinancing on a long-term basis;
 - (b) rectification of a breach of a long-term loan agreement; and
 - (c) the receipt from the lender of a period of grace to rectify a breach of a long-term loan agreement ending at least twelve months after the balance sheet date.

Information to be Presented on the Face of the Balance Sheet

68. *As a minimum, the face of the balance sheet shall include line items that present the following amounts to the extent that they are not presented in accordance with paragraph 68A:*
- (a) *property, plant and equipment;*
 - (b) *investment property;*
 - (c) *intangible assets;*
 - (d) *financial assets (excluding amounts shown under (e), (h) and (i));*
 - (e) *investments accounted for using the equity method;*
 - (f) *biological assets;*
 - (g) *inventories;*
 - (h) *trade and other receivables;*
 - (i) *cash and cash equivalents;*
 - (j) *trade and other payables;*
 - (k) *provisions;*
 - (l) *financial liabilities (excluding amounts shown under (j) and (k));*
 - (m) *liabilities and assets for current tax, as defined in HKAS 12 Income Taxes;*
 - (n) *deferred tax liabilities and deferred tax assets, as defined in HKAS 12;*
 - (o) *minority interest, presented within equity; and*
 - (p) *issued capital and reserves attributable to equity holders of the parent.*

- 68A. The face of the balance sheet shall also include line items that present the following amounts:**
- (a) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations; and**
- (b) liabilities included in disposal groups classified as held for sale in accordance with HKFRS 5.**
- 69. Additional line items, headings and subtotals shall be presented on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position.**

70. ***When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).***
71. This Standard does not prescribe the order or format in which items are to be presented. Paragraph 68 simply provides a list of items that are sufficiently different in nature or function to warrant separate presentation on the face of the balance sheet. In addition:
- (a) line items are included when the size, nature or function of an item or aggregation of similar items is such that separate presentation is relevant to an understanding of the entity's financial position; and
 - (b) the descriptions used and the ordering of items or aggregation of similar items may be amended according to the nature of the entity and its transactions, to provide information that is relevant to an understanding of the entity's financial position. For example, a bank-financial institution may amend the above descriptions to provide information that is relevant to the operations of a financial institution apply the more specific requirements in HKAS 30.
72. The judgement on whether additional items are presented separately is based on an assessment of:
- (a) the nature and liquidity of assets;
 - (b) the function of assets within the entity; and
 - (c) the amounts, nature and timing of liabilities.
73. The use of different measurement bases for different classes of assets suggests that their nature or function differs and, therefore, that they should be presented as separate line items. For example, different classes of property, plant and equipment can be carried at cost or revalued amounts in accordance with HKAS 16 *Property, Plant and Equipment*.

Information to be Presented either on the Face of the Balance Sheet or in the Notes

74. ***An entity shall disclose, either on the face of the balance sheet or in the notes, further subclassifications of the line items presented, classified in a manner appropriate to the entity's operations.***
75. The detail provided in subclassifications depends on the requirements of HKFRSs and on the size, nature and function of the amounts involved. The factors set out in paragraph 72 also are used to decide the basis of subclassification. The disclosures vary for each item, for example:
- (a) items of property, plant and equipment are disaggregated into classes in accordance with HKAS 16;
 - (b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;
 - (c) inventories are subclassified, in accordance with HKAS 2 *Inventories*, into classifications such as merchandise, production supplies, materials, work in progress and finished goods;

- (d) provisions are disaggregated into provisions for employee benefits and other items; and
 - (e) equity capital and reserves are disaggregated into various classes, such as paid-in capital, share premium and reserves.
76. ***An entity shall disclose the following, either on the face of the balance sheet or in the notes:***
- (a) ***for each class of share capital:***
 - (i) ***the number of shares authorised;***
 - (ii) ***the number of shares issued and fully paid, and issued but not fully paid;***
 - (iii) ***par value per share, or that the shares have no par value;***
 - (iv) ***a reconciliation of the number of shares outstanding at the beginning and at the end of the period;***
 - (v) ***the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;***
 - (vi) ***shares in the entity held by the entity or by its subsidiaries or associates; and***
 - (vii) ***shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and***
 - (b) ***a description of the nature and purpose of each reserve within equity.***
77. ***An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 76(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.***

Income Statement

Profit or Loss for the Period

78. ***All items of income and expense recognised in a period shall be included in profit or loss unless a Standard or an Interpretation requires otherwise.***
79. Normally, all items of income and expense recognised in a period are included in profit or loss. This includes the effects of changes in accounting estimates. However, circumstances may exist when particular items may be excluded from profit or loss for the current period. HKAS 8 deals with two such circumstances: the correction of errors and the effect of changes in accounting policies.
80. Other Standards deal with items that may meet the *Framework* definitions of income or expense but are usually excluded from profit or loss. Examples include revaluation surpluses (see HKAS 16), particular gains and losses arising on translating the financial statements of a foreign operation (see HKAS 21) and gains or losses on

remeasuring available-for-sale financial assets (see HKAS 39).

Information to be Presented on the Face of the Income Statement

81. *As a minimum, the face of the income statement shall include line items that present the following amounts for the period:*
- (a) *revenue**;
 - (b) *finance costs;*
 - (c) *share of the profit or loss of associates and joint ventures accounted for using the equity method;*
 - (d) ~~*pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations tax expense;*~~
 - (e) ~~*tax expense; and a single amount comprising the total of (i) the post-tax profit or loss of discontinued operations and (ii) the post tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and*~~
 - (f) *profit or loss.*
82. *The following items shall be disclosed on the face of the income statement as allocations of profit or loss for the period:*
- (a) *profit or loss attributable to minority interest; and*
 - (b) *profit or loss attributable to equity holders of the parent.*
83. *Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance.*
84. Because the effects of an entity's various activities, transactions and other events differ in frequency, potential for gain or loss and predictability, disclosing the components of financial performance assists in an understanding of the financial performance achieved and in making projections of future results. Additional line items are included on the face of the income statement, and the descriptions used and the ordering of items are amended when this is necessary to explain the elements of financial performance. Factors to be considered include materiality and the nature and function of the components of income and expenses. For example, a ~~bank-financial institution may~~ amends the descriptions to provide information that is relevant to the operations of a financial institution. ~~apply the more specific requirements in HKAS 30.~~ Income and expense items are not offset unless the criteria in paragraph 32 are met.
85. *An entity shall not present any items of income and expense as extraordinary items, either on the face of the income statement or in the notes.*

Information to be Presented either on the Face of the Income Statement or in the Notes

86. *When items of income and expense are material, their nature and amount shall be disclosed separately.*

* Hong Kong incorporated companies are required to disclose turnover for the financial year and the method by which it is arrived at (HKCO Tenth Sch. para 16). Turnover should consist of revenue arising from the principal activities of the entity and therefore should not usually include those items of revenue and gains that arise incidentally.

87. Circumstances that would give rise to the separate disclosure of items of income and expense include:
- (a) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, as well as reversals of such write-downs;
 - (b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;
 - (c) disposals of items of property, plant and equipment;
 - (d) disposals of investments;
 - (e) discontinued ~~ing~~ operations;
 - (f) litigation settlements; and
 - (g) other reversals of provisions.
88. *An entity shall present an analysis of expenses using a classification based on either the nature of expenses or their function within the entity, whichever provides information that is reliable and more relevant.*
89. Entities are encouraged to present the analysis in paragraph 88 on the face of the income statement.
90. Expenses are subclassified to highlight components of financial performance that may differ in terms of frequency, potential for gain or loss and predictability. This analysis is provided in one of two forms.
91. The first form of analysis is the nature of expense method. Expenses are aggregated in the income statement according to their nature (for example, depreciation, purchases of materials, transport costs, employee benefits and advertising costs), and are not reallocated among various functions within the entity. This method may be simple to apply because no allocations of expenses to functional classifications are necessary. An example of a classification using the nature of expense method is as follows:

Revenue		X
Other income		X
Changes in inventories of finished goods and work in progress		
	X	
Raw materials and consumables used	X	
Employee benefits costs	X	
Depreciation and amortisation expense	X	
Other expenses	X	
	<hr/>	
Total expenses		(X)
		<hr/>
Profit		X
		<hr/>

92. The second form of analysis is the function of expense or ‘cost of sales’ method and classifies expenses according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities. At a minimum, an entity discloses its cost of sales under this method separately from other expenses. This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgement. An example of a classification using the function of expense method is as follows:

Revenue	X
Cost of sales	<u>(X)</u>
Gross profit	X
Other income	X
Distribution costs	(X)
Administrative expenses	(X)
Other expenses	<u>(X)</u>
Profit	<u><u>X</u></u>

93. ***Entities classifying expenses by function shall disclose additional information on the nature of expenses, including depreciation and amortisation expense and employee benefits expense.***
94. The choice between the function of expense method and the nature of expense method depends on historical and industry factors and the nature of the entity. Both methods provide an indication of those costs that might vary, directly or indirectly, with the level of sales or production of the entity. Because each method of presentation has merit for different types of entities, this Standard requires management to select the most relevant and reliable presentation. However, because information on the nature of expenses is useful in predicting future cash flows, additional disclosure is required when the function of expense classification is used. In paragraph 93, ‘employee benefits’ has the same meaning as in HKAS 19 *Employee Benefits*.
95. ***An entity shall disclose, either on the face of the income statement or the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to equity holders during the period*, and the related amount per share.***

Statement of Changes in Equity

96. ***An entity shall present a statement of changes in equity showing on the face of the statement:***
- (a) ***profit or loss for the period;***
 - (b) ***each item of income and expense for the period that, as required by other Standards or by Interpretations, is recognised directly in equity, and the total of these items;***

* Hong Kong incorporated companies are required to show the aggregate amount of the dividends paid and proposed in their profit and loss account (HKCO Tenth Sch., para 13(1)(j)).

- (c) *total income and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to equity holders of the parent and to minority interest; and*
- (d) *for each component of equity, the effects of changes in accounting policies and corrections of errors recognised in accordance with HKAS 8.*

A statement of changes in equity that comprises only these items shall be titled a statement of recognised income and expense.

97. *An entity shall also present, either on the face of the statement of changes in equity or in the notes:*
- (a) *the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders;*
 - (b) *the balance of retained earnings (ie accumulated profit or loss) at the beginning of the period and at the balance sheet date, and the changes during the period; and*
 - (c) *a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change.*
98. Changes in an entity's equity between two balance sheet dates reflect the increase or decrease in its net assets during the period. Except for changes resulting from transactions with equity holders acting in their capacity as equity holders (such as equity contributions, reacquisitions of the entity's own equity instruments and dividends) and transaction costs directly related to such transactions, the overall change in equity during a period represents the total amount of income and expenses, including gains and losses, generated by the entity's activities during that period (whether those items of income and expenses are recognised in profit or loss or directly as changes in equity).
99. This Standard requires all items of income and expense recognised in a period to be included in profit or loss unless another Standard or an Interpretation requires otherwise. Other Standards require some gains and losses (such as revaluation increases and decreases, particular foreign exchange differences, gains or losses on remeasuring available-for-sale financial assets, and related amounts of current tax and deferred tax) to be recognised directly as changes in equity. Because it is important to consider all items of income and expense in assessing changes in an entity's financial position between two balance sheet dates, this Standard requires the presentation of a statement of changes in equity that highlights an entity's total income and expenses, including those that are recognised directly in equity.
100. HKAS 8 requires retrospective adjustments to effect changes in accounting policies, to the extent practicable, except when the transitional provisions in another Standard or an Interpretation require otherwise. HKAS 8 also requires that restatements to correct errors are made retrospectively, to the extent practicable. Retrospective adjustments and retrospective restatements are made to the balance of retained earnings, except when a Standard or an Interpretation requires retrospective adjustment of another component of equity. Paragraph 96(d) requires disclosure in the statement of changes in equity of the total adjustment to each component of equity resulting, separately, from changes in accounting policies and from corrections of errors. These adjustments are disclosed for each prior period and the beginning of the period.

101. The requirements in paragraphs 96 and 97 may be met in various ways. One example is a columnar format that reconciles the opening and closing balances of each element within equity. An alternative is to present only the items set out in paragraph 96 in the statement of changes in equity. Under this approach, the items described in paragraph 97 are shown in the notes.

Cash Flow Statement

102. Cash flow information provides users of financial statements with a basis to assess the ability of the entity to generate cash and cash equivalents and the needs of the entity to utilise those cash flows. HKAS 7 *Cash Flow Statements* sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

Structure

103. The notes shall:

- (a) *present information about the basis of preparation of the financial statements and the specific accounting policies used in accordance with paragraphs 108-115;*
- (b) *disclose the information required by HKFRSs that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement; and*
- (c) *provide additional information that is not presented on the face of the balance sheet, income statement, statement of changes in equity or cash flow statement, but is relevant to an understanding of any of them.*

104. Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement shall be cross-referenced to any related information in the notes.

105. Notes are normally presented in the following order, which assists users in understanding the financial statements and comparing them with financial statements of other entities:

- (a) a statement of compliance with HKFRSs (see paragraph 14);
- (b) a summary of significant accounting policies applied (see paragraph 108);
- (c) supporting information for items presented on the face of the balance sheet, income statement, statement of changes in equity and cash flow statement, in the order in which each statement and each line item is presented; and
- (d) other disclosures, including:
 - (i) contingent liabilities (see HKAS 37) and unrecognised contractual commitments; and
 - (ii) non-financial disclosures, eg the entity's financial risk management objectives and policies (see ~~HKAS 32~~HKFRS 7).

106. In some circumstances, it may be necessary or desirable to vary the ordering of specific items within the notes. For example, information on changes in fair value recognised in profit or loss may be combined with information on maturities of financial instruments, although the former disclosures relate to the income statement and the latter relate to the balance sheet. Nevertheless, a systematic structure for the notes is retained as far as practicable.
107. Notes providing information about the basis of preparation of the financial statements and specific accounting policies may be presented as a separate component of the financial statements.

Disclosure of Accounting Policies

108. *An entity shall disclose in the summary of significant accounting policies:*

- (a) *the measurement basis (or bases) used in preparing the financial statements; and*
- (b) *the other accounting policies used that are relevant to an understanding of the financial statements.*

109. It is important for users to be informed of the measurement basis or bases used in the financial statements (for example, historical cost, current cost, net realisable value, fair value or recoverable amount) because the basis on which the financial statements are prepared significantly affects their analysis. When more than one measurement basis is used in the financial statements, for example when particular classes of assets are revalued, it is sufficient to provide an indication of the categories of assets and liabilities to which each measurement basis is applied.
110. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Standards and Interpretations. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see HKAS 31 *Interests in Joint Ventures*). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, HKAS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment. HKAS 23 *Borrowing Costs* requires disclosure of whether borrowing costs are recognised immediately as an expense or capitalised as part of the cost of qualifying assets.
111. Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, an entity subject to income taxes would be expected to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, disclosure of accounting policies for the recognition of foreign exchange gains and losses would be expected. When business combinations have occurred, the policies used for measuring goodwill and minority interest are disclosed.

112. An accounting policy may be significant because of the nature of the entity's operations even if amounts for current and prior periods are not material. It is also appropriate to disclose each significant accounting policy that is not specifically required by HKFRSs, but is selected and applied in accordance with HKAS 8.
- 113. *An entity shall disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 116), management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.***
114. In the process of applying the entity's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts recognised in the financial statements. For example, management makes judgements in determining:
- (a) whether financial assets are held-to-maturity investments;
 - (b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities;
 - (c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
 - (d) whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity.
115. Some of the disclosures made in accordance with paragraph 113 are required by other Standards. For example, HKAS 27 requires an entity to disclose the reasons why the entity's ownership interest does not constitute control, in respect of an investee that is not a subsidiary even though more than half of its voting or potential voting power is owned directly or indirectly through subsidiaries. HKAS 40 requires disclosure of the criteria developed by the entity to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, when classification of the property is difficult.

Key Sources of Estimation Uncertainty

- 116. *An entity shall disclose in the notes information about the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:***
- (a) *their nature; and*
 - (b) *their carrying amount as at the balance sheet date.*
117. Determining the carrying amounts of some assets and liabilities requires estimation of the effects of uncertain future events on those assets and liabilities at the balance sheet date. For example, in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future

outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. These estimates involve assumptions about such items as the risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs.

118. The key assumptions and other key sources of estimation uncertainty disclosed in accordance with paragraph 116 relate to the estimates that require management's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex, and the potential for a consequential material adjustment to the carrying amounts of assets and liabilities normally increases accordingly.
119. The disclosures in paragraph 116 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the balance sheet date, they are measured at fair value based on recently observed market prices (their fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainty at the balance sheet date).
120. The disclosures in paragraph 116 are presented in a manner that helps users of financial statements to understand the judgements management makes about the future and about other key sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:
- (a) the nature of the assumption or other estimation uncertainty;
 - (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;
 - (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and
 - (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.
121. It is not necessary to disclose budget information or forecasts in making the disclosures in paragraph 116.
122. When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the balance sheet date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the specific asset or liability (or class of assets or liabilities) affected by the assumption.
123. The disclosures in paragraph 113 of particular judgements management made in the process of applying the entity's accounting policies do not relate to the disclosures of key sources of estimation uncertainty in paragraph 116.

124. The disclosure of some of the key assumptions that would otherwise be required in accordance with paragraph 116 is required by other Standards. For example, HKAS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. HKAS 32 requires disclosure of significant assumptions applied in estimating fair values of financial assets and financial liabilities that are carried at fair value. HKAS 16 requires disclosure of significant assumptions applied in estimating fair values of revalued items of property, plant and equipment.

Capital

124A An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

124B To comply with paragraph 124A, the entity discloses the following:

- (a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):
 - (i) a description of what it manages as capital;
 - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
 - (iii) how it is meeting its objectives for managing capital.
- (b) summary quantitative data about what it manages as capital. Some entities regard some financial liabilities (eg some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (eg components arising from cash flow hedges).
- (c) any changes in (a) and (b) from the previous period.
- (d) whether during the period it complied with any externally imposed capital requirements to which it is subject.
- (e) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

These disclosures shall be based on the information provided internally to the entity's key management personnel.

124C An entity may manage capital in a number of ways and be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities, and those entities may also operate in several jurisdictions. When an aggregate disclosure of capital requirements and how capital is managed would not provide useful information or distorts a financial statement user's understanding of an entity's capital resources, the entity shall disclose separate information for each capital requirement to which the entity is subject.

Other Disclosures

125. *An entity shall disclose in the notes:*

- (a) *the amount of dividends proposed or declared before the financial statements were authorised for issue but not recognised as a distribution to equity holders during the period^{*}, and the related amount per share; and*
- (b) *the amount of any cumulative preference dividends not recognised.*

126. *An entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:*

- (a) *the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office);*
- (b) *a description of the nature of the entity's operations and its principal activities; and*
- (c) *the name of the parent and the ultimate parent of the group.*

Effective Date

127. *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.*

127A. 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.

127B. An entity shall apply the requirements of paragraphs 124A–124C for annual periods beginning on or after 1 January 2007. Earlier application is encouraged.

Withdrawal of Other Pronouncements

128. This Standard supersedes SSAP 1 *Presentation of Financial Statements* revised in 2001 and Interpretation 8 *Presentation of Financial statements – Current Assets: Classification of Restricted and Appropriated Cash Balance*.

^{*} Hong Kong incorporated companies are required to show the aggregate amount which is recommended for distribution by way of dividend under a separate heading(s) in their balance sheet (HKCO Tenth Sch., para 9(1)(e)).

Appendix

Comparison with International Accounting Standards

This comparison appendix, which was prepared as at 9 March 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 1.

The International Accounting Standard comparable with HKAS 1 is IAS 1 *Presentation of Financial Statements*.

The following sets out the major textual difference between HKAS 1 and IAS 1 and the reason for the difference.

Difference	Reason for the differences
<p>(i) <u>IAS 1 paras 13-22 vs SSAP 1 paras 13-22</u></p> <p>The terms “fair presentation” and “present fairly” used in IAS 1 are replaced by the terms “true and fair view” and “give a true and fair view” in HKAS 1</p>	<p>To match with the terms used in the Hong Kong Companies Ordinance</p>

Appendix

Notes on Legal Requirements in Hong Kong

This appendix accompanies, but is not part of, HKAS 1.

The following sets out the legal requirements in Hong Kong that are pertinent to each Hong Kong Accounting Standards or Hong Kong Financial Reporting Standards. The references to “the Schedule” below are to the Tenth Schedule to the Companies Ordinance (“CO”).

1.	HKAS 1 <i>Presentation of Financial Statements</i>
	<p>Sections 122 and 123 of the CO requires the directors of a company to prepare a profit and loss account for each financial year, and a balance sheet as at the last day of that year. The accounts must give a true and fair view of the profit or loss and of the state of affairs of the company, and comply with the requirements of the Schedule.</p> <p>Sections 124 to 126 of the CO requires, where a company has a subsidiary at the end of its financial year, the directors of a company to prepare group accounts unless the company is, at the end of its financial year, a wholly owned subsidiary of another body corporate. Group accounts, which normally comprise a consolidated balance sheet and a consolidated profit and loss account, must give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries.</p> <p>Section 129D of the CO requires a directors’ report to be attached to every balance sheet laid before a company in general meeting. The legal requirements with regard to the content of a directors’ report are dealt with in Sections 129D, 129E and 141C of the CO.</p> <p>Section 122 of the CO requires a company’s accounts, together with the directors’ report and auditors’ reports to be laid before the company at its annual general meeting and the accounts of private companies (other than a private company which is a member of a group of companies which includes a non-private company) and companies limited by guarantee, and all other companies to be made up to not more than 9 and 6 months, respectively, prior to the meeting.</p> <p>Section 111 of the CO requires that, unless approved by the Registrar of Companies, no more than 15 months should elapse between the date of one annual general meeting and the next, and that the first annual general meeting of the company must be held within 18 months of its incorporation.</p> <p>In general terms the legal requirements with regard to the form and content of the accounts are dealt with, inter alia, in Section 122 to 129A and Sections 161 to 161C of the CO and the Schedule.</p>
2	HKAS 2 <i>Inventories</i>
	<p>Paragraph 12(13) of the Schedule requires the disclosure of the manner in which the carrying amount of stock in trade or work in progress has been calculated.</p>

3	HKAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
	<p>Paragraph 17(6)* of the Schedule requires disclosure of the following:</p> <p>"Any material respects in which any items shown in the profit and loss account are affected –</p> <p><i>a. by transactions of a sort not usually undertaken by the company or otherwise by circumstances of an exceptional or non-recurrent nature; or</i></p> <p><i>b. by any change in the basis of accounting."</i></p>
4	HKAS 10 <i>Events After the Balance Sheet Date</i>
	<p>Paragraph 9(1)(e) of the Schedule requires the disclosure of the aggregate amount which is recommended for distribution by way of dividend in the balance sheet.</p> <p>Paragraph 13(1)(j) of the Schedule requires the disclosure of the aggregate amount of the dividend paid and proposed in the profit and loss account.</p>
5	HKAS 11 <i>Construction Contracts</i>
	Paragraph 12(13) of the Schedule requires the disclosure of the manner in which the carrying amount of stock in trade or work in progress has been calculated.
6	HKAS 12 <i>Incomes Taxes</i>
	<p>Paragraph 8* of the Schedule requires that if an amount is set aside for the purpose of its being used to prevent undue fluctuations in charges for taxation, it shall be stated.</p> <p>Paragraph 12(12)* the Schedule requires that, if such amount has been used during the financial year for another purpose, the amount thereof and the fact that it has been so used shall be stated.</p> <p>Paragraph 12(15) of the Schedule requires disclosure of the basis on which the amount, if any, set aside for Hong Kong profits tax is computed.</p> <p>Paragraph 13(1)(c)* of the Schedule requires disclosure of the amount of the charge to revenue for taxes imposed by the Inland Revenue Ordinance and, if that amount would have been greater but for relief from double taxation, the amount which it would have been but for such relief, and the amount of the charge for taxation imposed outside Hong Kong of profits, income and (so far as charged to revenue) capital gains.</p> <p>Paragraph 17(3)* of the Schedule requires that the basis on which the charge for Hong Kong profit tax is computed shall be stated. Particulars are required of any special circumstances affecting the tax liability for the financial year or succeeding financial years (paragraph 17(4) of the Schedule).</p>

7	HKAS 16 <i>Property, Plant and Equipment</i>
	<p>Paragraph 4⁺ of the Schedule requires that fixed assets, current assets and assets that are neither fixed nor current shall be separately identified, and that the method used to arrive at the amount of fixed assets under each heading should be stated.</p> <p>Paragraph 5*⁺ of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value.</p> <p>Paragraph 10 of the Schedule requires that where any liability of the company is secured otherwise than by operation of law on any assets of the company, the fact that that liability is so secured shall be stated, but it shall not be necessary to specify the assets on which the liability is secured.</p> <p>Paragraph 12(4)⁺ of the Schedule requires disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured.</p> <p>Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorised by the directors which has not been contracted for.</p> <p>Paragraph 12(7)*⁺ of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period:</p> <ol style="list-style-type: none"> a. the names of the persons who valued them or particulars of their qualifications for doing so; and b. the bases of valuation used by such persons. <p>Paragraph 12(8)* of the Schedule requires disclosure of the amounts of fixed assets acquired or disposed of during the year under each heading. Where fixed assets include land, paragraph 12(9)* requires separate disclosure of the amounts ascribable to:</p> <ol style="list-style-type: none"> a. land in Hong Kong held on long lease (not less than 50 years), medium-term lease (10 to 50 years) and short lease (under 10 years) respectively; and b. land outside Hong Kong held freehold, on long lease, medium-term lease and short lease respectively. <p>Under paragraph 13(1)(a)*⁺ of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.</p>

8	HKAS 17 <i>Leases</i>
	Paragraph 13(1)(i)* [†] of the Schedule requires disclosure of the amount, if material, charged to revenue in respect of sums payable in respect of the hire of plant and machinery.
9	HKAS 18 <i>Revenue</i>
	Paragraph 13(1)(g)* [†] of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments. Paragraph 13(1)(h) [†] requires disclosure of rents from land and buildings (after deduction of ground rents, rates and other out-going) if a substantive part of the company's revenue for the financial year consists of such rents. Paragraph 16 of the Schedule requires disclosure of turnover and the method by which it is arrived at.
10	HKAS 19 <i>Employee Benefits</i>
	The legal requirements as regards the disclosure of directors' emoluments, rights to acquire shares or debentures and other benefits are dealt with in the section below concerning HKAS 24 <i>Related Party Disclosures</i> . Under the Employment Ordinance, an enterprise is required to make long service payments to its employees upon the termination of their employment or retirement when the employee fulfils certain conditions and the termination meets the required circumstances. However, where an employee is simultaneously entitled to a long service payment and to a retirement scheme payment, the amount of the long service payment may be reduced by certain benefits arising from the retirement scheme. Based on the enterprise's past experience and the directors' knowledge of the business and work force, it is probable that the enterprise will have to make long service payments to some employees on termination of their employment or retirement. Such long service payments are accounted for as-"post-employment benefits: defined benefit plans". Paragraph 30(1) of the Schedule defines "provision" as any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or any amount retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. The amount provided for certain employee benefits (e.g. pensions) falls within this definition. Paragraph 4(1) [†] of the Schedule requires the classification of provisions under headings appropriate to the company's business. Paragraph 6* [†] of the Schedule requires the disclosure of the aggregate amount of provisions (other than provisions for depreciation, renewals and diminution in value of assets) under separate headings. Paragraph 7* [†] of the Schedule requires the disclosure of the source of any increase and the application of any decrease in each sub-heading of provisions.

	<p>Paragraph 13(1)(f)*[†] of the Schedule requires the disclosure of the amount set aside to provisions (other than provisions for depreciation, renewals and diminution in value of assets) or the amount withdrawn from such provisions and not applied for the purposes of the provisions, if its is material.</p> <p>Paragraph 12(5)*[†] of the Schedule requires the disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.</p>
11	<i>HKAS 20 Accounting for Government Grants and Disclosure of Government Assistance</i>
	<p>Paragraph 4[†] of the Schedule requires that the method used to arrive at the amount of fixed assets under each heading should be stated.</p> <p>Paragraph 5*[†] of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value.</p> <p>Paragraph 12(5)*[†] of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.</p>
12	<i>HKAS 21 The Effects of Changes in Foreign Exchange Rates</i>
	<p>Paragraph 12(14)* of the schedule requires disclosure of the basis on which other currencies have been converted into currency in which the balance sheet is expressed, where the amount of the assets or liabilities affected is material.</p>
13	<i>HKAS 22 Business Combinations</i>
	<p>The legal requirements in Hong Kong with regard to the form and content of group accounts and other matters relating to subsidiaries of a company are dealt with in the section below concerning <i>HKAS 27 Consolidated and Separate Financial Statements</i>.</p> <p>The Schedule contains the following disclosure requirements for goodwill:</p> <p>a. Balance sheet</p> <p>Paragraph 9(1)(b) of the Schedule requires the disclosure of the unamortised balance of goodwill either as a separate item or aggregated with any unamortised balances on patents and trademarks. This requirement applies whether the goodwill is carried as a separate balance in the books or can only be ascertained from contracts or documents.</p> <p>b. Profit and loss account</p> <p>The amortisation treatment involves the allocation of cost of purchased goodwill over its useful life and can be regarded as depreciation within the meaning of the Schedule. Therefore the disclosure requirements of paragraph 13(1)(a)*[†] of that Schedule apply and the amount charged to revenue for amortisation of goodwill should be disclosed.</p>

14	HKAS 23 <i>Borrowing Costs</i>
	<p>Paragraph 13(1)(b)* of the Schedule requires disclosure of the following:</p> <p>"the amount of the interest on loans of the following kinds made to the company (whether on the security of debentures or not), namely, bank loans, overdrafts and loans which, not being bank loans or overdrafts,</p> <ul style="list-style-type: none"> i. are repayable otherwise than by instalments and fall due for repayment before the expiration of the period of 5 years beginning with the day next following the expiration of the financial year; or ii. are repayable by instalments the last of which falls due for payment before the expiration of that period; <p>and the amount of the interest on loans of other kinds so made (whether on the security of debentures or not)".</p>
15	HKAS 24 <i>Related Party Disclosures</i>
	<p>Section 128 of the CO requires that if at the end of its financial year, a company has subsidiaries, the following should be disclosed in the accounts:</p> <ul style="list-style-type: none"> a. the subsidiary's name; b. its country of incorporation; and c. in relation to shares of each class of the subsidiary held by the company, the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. <p>Section 129 of the CO requires, subject to certain exemption set out in sections 129(3) to 129(5) that if at the end of its financial year, a company holds more than 20% of any class of issued shares of another body corporate (not being a subsidiary), or the shareholding in another body corporate (not being a subsidiary) exceeds 10% of the total assets of the company, the following should be disclosed:</p> <ul style="list-style-type: none"> a. the name of that other body corporate; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. <p>Section 129A of the CO requires disclosure of the name and country of incorporation of the body corporate regarded by the directors as being the company's ultimate holding company.</p> <p>Section 129D(3)(i) of the CO requires disclosure in the directors' report of the names of the persons who, at any time during the financial year, were directors of the company.</p> <p>Section 129D(3)(ia) of the CO requires disclosure in the directors' report of a statement of the existence and duration of any contract in force during the year for the management and administration of the whole or any substantial part of the company's business, together with the name of any director interested therein.</p>

Section 129D(3)(j) of the CO requires disclosure in the directors' report of any interest of a director in a contract with the company or its subsidiary, holding company or fellow subsidiary, if, in the opinion of the directors, the contract is significant in relation to the company's business and the director's interest is material, whether directly or indirectly, at any time in the year, stating:

- a. the fact that the contract subsists or subsisted;
- b. the names of the parties involved (other than the company);
- c. the name of the director (if not a party);
- d. the nature of the contract; and
- e. the nature of the director's interest.

This does not apply to directors' service contracts nor to contracts between the company and another body corporate where a director's only interest is by virtue of his being a director of that other body.

Section 129D(3)(k) of the CO requires disclosure in the directors' report of any directors' rights to acquire shares or debentures, in the company or any other body corporate, under any arrangement to which the company or its subsidiary, holding company or fellow subsidiary is a party, explaining the effects of the arrangement and giving the names of all directors during the year who held shares or debentures acquired pursuant to the arrangement.

Section 161 of the CO requires disclosure of the following, distinguishing between emoluments in respect of services as director (of the company or its subsidiary) and other emoluments:

- a. the aggregate amount of directors' emoluments;
- b. the aggregate amount of directors' or past directors' pensions; and
- c. the aggregate amount of any compensation to directors or past directors in respect of loss of office, distinguishing between sums paid by or receivable from the company, its subsidiaries and any other persons.

Section 161B^q of the CO requires the accounts to contain certain particulars of every relevant transaction, being a loan, quasi-loan or credit transaction, entered into by the company during that financial year or, if made or entered into before it, is outstanding at any time during that financial year to the following parties:

- a. a director or an officer of the company;
- b. a director of its holding company;
- c. a body corporate controlled by a director of the company; or
- d. persons etc. connected with a director of the company or of its holding company;

Paragraph 9(1)(c) of the Schedule requires disclosure of loans to employees, or to trustees for employees (including salaried directors), to purchase fully paid shares in the company or in its holding company.

Paragraph 18(2)* of the CO of the Schedule requires the aggregate amounts of shares in, and the amounts owing from (and indebtedness to) the company's subsidiaries to be set out separately from all other assets (and liabilities) of the company.

	<p>Paragraph 18(3)* of the CO requires disclosure of the number, description and amount of the shares in and debentures of the company held by its subsidiaries or their nominees except where the subsidiaries or their nominees hold the shares as trustees and neither the company nor the subsidiaries have any beneficial interest in those shares.</p> <p>Paragraph 19(1)* of the CO of the Schedule requires disclosure of the aggregate amounts owing from and indebtedness to the company's holding companies and fellow subsidiaries, and the aggregate amount of assets consisting of shares in fellow subsidiaries.</p>
16	HKAS 27 Consolidated and Separate Financial Statements
	<p>Under section 2(4) of the CO, a company shall be deemed to be a subsidiary of another company, if:</p> <ol style="list-style-type: none"> a. that other company: <ol style="list-style-type: none"> i. controls the composition of the board of directors of the first mentioned company; or ii. controls more than half of the voting power of the first mentioned company; or iii. holds more than half of the issued share capital of the first mentioned company (excluding any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital); or b. the first mentioned company is a subsidiary of any company which is that other company's subsidiary. <p>For the purposes of defining a subsidiary under section 2(4) of the CO, section 2(5) of the CO states that the composition of a company's board of directors shall be deemed to be controlled by another company if that other company by the exercise of some power exercisable by it, without the consent or concurrence of any other person, can appoint or remove all or a majority of the directors, and, for the purposes of this provision, that other company shall be deemed to have power to make such an appointment if:</p> <ol style="list-style-type: none"> a. a person cannot be appointed as a director without the exercise in his favour by that other company of such a power; or b. a person's appointment as a director follows necessarily from his being a director or other officer of that other company. <p>The obligation to lay group accounts before the members of a holding company in general meeting is set out in section 124(1) of the CO. In general terms the form and content of group accounts are dealt with inter alia in sections 125 and 126 of the CO and in the Schedule.</p> <p>Under section 124(2)(a) of the CO group accounts shall not be required where the holding company is at the end of its financial year the wholly-owned subsidiary of another body corporate.</p>

Section 124(2)(b) of the Companies Ordinance also allows group accounts (subject to approval of the Financial Secretary in certain instances) not to deal with a subsidiary if the company's directors are of the opinion that:

- a. it is impracticable, or would be of no real value to members of the company, in view of the insignificant amount involved, or would involve expense or delay out of proportion to the value to members of the company; or
- b. the result would be misleading, or harmful to the business of the company or any of its subsidiaries; or
- c. the business of the holding company and that of the subsidiary are so different that they cannot reasonably be treated as a single undertaking.

It should be noted that HKAS 27 takes the view that all subsidiaries should be included in the consolidated financial statements. ~~except for a subsidiary where 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.~~

In general, the of the CO requires group accounts to be presented in the form of consolidated accounts and should comprise a consolidated balance sheet and a consolidated profit and loss account dealing with the state of affairs and profit or loss of the company and its subsidiaries. However, the of the CO also accepts that group accounts may be presented in a form other than a single set of consolidated accounts under certain conditions. It is generally accepted that consolidated financial statements are usually the best means of achieving the objective of giving a true and fair view of the profit or loss and of the state of affairs of the group. It should be noted that, where subsidiaries are not dealt with in group accounts or are being dealt with in a form of group accounts other than consolidated financial statements, information may still be required by law about the results of these subsidiaries and the extent to which they have been dealt with in the accounts of the holding company (paragraphs 18(4) and 24 of the Schedule).

Section 127(1) of the of the CO states that a holding company's directors shall secure that, except where in their opinion there are good reasons against it, the financial year of each of its subsidiaries shall coincide with the company's own financial year.

Section 126(2) of the CO requires that, if the financial year of a subsidiary is not co-terminous with that of the holding company, the group accounts shall deal with the subsidiary's results and state of affairs as of the last financial year ending on or before the date of the holding company's balance sheet. It also requires the disclosure of the reasons why the financial year of a subsidiary does not coincide with that of the holding company.

Paragraph 18(2) and 19(1) of the Schedule require disclosure of the aggregate amounts of shares in, and the amounts owing from and indebtedness to, the subsidiaries and fellow subsidiaries.

Paragraphs 18(4), 18(5) and 24(b) of the Schedule require disclosure of the following information where group accounts are not submitted:

- a. the reasons why subsidiaries are not dealt with in group accounts;

	<p>b. the net aggregate amount attributable to the holding company of the profits less losses of such subsidiaries, dealt with this year and not dealt with, in the company's accounts, both for:</p> <ul style="list-style-type: none"> – the financial years of subsidiaries ending with or during the financial year of the company; and – their previous financial years since acquisition; and <p>c. any material qualifications in the auditors' report and any note to the accounts disclosing a matter which, in the absence of such disclosure, would have been referred to in an audit report qualification, to the extent that the matter is not referred to in the holding company's audit report and is material from the point of view of its members.</p> <p>Paragraphs 18(6) and 25 of the Schedule requires disclosure of the following information where group accounts are not submitted and the subsidiaries' financial year did not end with that of the company:</p> <ul style="list-style-type: none"> a. the reasons why the company's directors consider that the subsidiaries' financial years should not end with that of the company; and b. the dates on which the subsidiaries' financial years ending last before that of the company respectively ended or the earliest and latest of those dates. <p><u>The Companies (Amendment) Ordinance 2005, in general, redefines the definition of "subsidiary" for the purpose of preparing group accounts to include a subsidiary undertaking as defined in the new Twenty-third Schedule and includes a true and fair overriding provision. In essence, this would enable Hong Kong incorporated companies to use the definition of subsidiary in HKAS 27 for the purpose of preparing group accounts.</u></p>
--	---

17	HKAS 28 <i>Investment in Associates</i>
	<p>Section 129 of the Companies Ordinance requires that if at the balance sheet date, a company holds more than 20% of any class of issued shares of another company, or the shareholding in another company exceeds 10% of the total assets of the investing company, the following should be disclosed subject to sections 129(3) to 129(5) of the CO:</p> <ol style="list-style-type: none"> a. the name of that other company; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued share of that class represented by the shares held. <p>In the case of an investee company which is either incorporated outside Hong Kong or carries on business outside Hong Kong, section 129(3) of the Companies Ordinance provides that disclosure of the company's name and other particulars need not be made if in the opinion of the directors and with the concurrence of the Financial Secretary such disclosure would be harmful.</p> <p>Paragraph 9(1)(a)[†] of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments.</p> <p>Paragraph 9(3)[†] of the Schedule requires that the amount of listed investments in the balance sheet should be analysed into those listed in Hong Kong and those listed outside Hong Kong.</p> <p>Paragraph 12(5)[†] of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for and, where practicable, the aggregate amount or estimated amount of those liabilities, if it is material.</p> <p>Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorised by the directors which has not been contracted for.</p> <p>Paragraph 13(1)(g)*[†] of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.</p>

18	HKAS 31 <i>Interests in Joint Ventures</i>
	<p>Section 129 of the Companies Ordinance requires that if at the balance sheet date, a company holds more than 20% of any class of issued shares of another company, or the shareholding in another company exceeds 10% of the total assets of the investing company, the following should be disclosed:</p> <ol style="list-style-type: none"> a. the name of that other company; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. <p>In the case of an investee company which is either incorporated outside Hong Kong or carries on business outside Hong Kong, section 129(3) of the Companies Ordinance provides that disclosure of a company's name and other particulars need not be made if in the opinion of the directors and with the concurrence of the Financial Secretary such disclosure would be harmful.</p> <p>Paragraph 9(1)(a)[†] of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments.</p> <p>Paragraph 9(3)[†] of the Schedule requires that the amount of listed investments in the balance sheet should be analysed into those listed in Hong Kong and those listed outside Hong Kong.</p> <p>Paragraph 12(5)[†] of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for and, where practicable, the aggregate amount or estimated amount of those liabilities, if it is material.</p> <p>Paragraph 12(6) of the Schedule requires disclosure of, where practicable, the aggregate amount or estimated amount, if it is material, of contracts for capital expenditure, so far as not provided for and the aggregate amount or estimated amount, if it is material, of capital expenditure authorised by the directors which has not been contracted for.</p> <p>Paragraph 13(1)(g)*[†] of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.</p>

19	HKAS 32 <i>Financial Instruments: Disclosure and Presentation</i>
	<p>Section 129 of the Companies Ordinance requires that if at the balance sheet date, a company holds more than 20% of any class of issued shares of another company, or the shareholding in another company exceeds 10% of the total assets of the investing company, the following should be disclosed:</p> <ol style="list-style-type: none"> a. the name of that other company; b. its country of incorporation; and c. the identity of the class and the proportion of the nominal value of the issued shares of that class represented by the shares held. <p>Paragraph 4(2)[†] of the Schedule requires fixed assets, current assets and assets that are neither fixed nor current to be separately identified.</p> <p>Paragraph 5*[†] of the Schedule requires that where the directors' valuation of unlisted investments is not given and such investments are classified as fixed assets, the following should be stated:</p> <ol style="list-style-type: none"> a. cost or valuation as shown in the company's books; and b. any amount provided or written off for diminution in value. <p>Paragraph 9(1)(a) of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments.</p> <p>Paragraph 9(1)(d) requires disclosure of the aggregate amount of banks loans and overdrafts and the aggregate amount of loans (other than bank loans and overdrafts) repayable wholly in part more than five years from the balance sheet date.</p> <p>Paragraph 9(3)[†] of the Schedule requires that the carrying amounts of listed investments in the balance sheet should be analysed into those listed in Hong Kong and those listed outside Hong Kong.</p> <p>Paragraph 9(4) of the Schedule requires disclosure of the terms of repayments and the rate of interests for each loan, other than a bank loan or an overdraft, specified in paragraph 9(1)(d) of the Schedule</p> <p>Paragraph 12(10) of the Schedule requires that, if in the opinion of the directors, the realisable value of any current assets is less than the balance sheet value, a statement of that fact should be included in the accounts.</p> <p>Paragraph 12(11)*[†] of the Schedule requires disclosure of the aggregate market value of listed investments where it differs from the carrying amounts in the balance sheet. If the aggregate market value is higher than the Stock Exchange value, the Stock Exchange value should also be disclosed.</p> <p>Paragraph 13(1)(a)*[†] of the Schedule requires disclosure of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.</p> <p>Paragraph 13(1)(g)*[†] of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.</p>

20	HKAS 36 <i>Impairment of Assets</i>
	<p>Paragraph 30(1) of the Schedule defines "provision" as any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. This covers the definition of "impairment loss" in paragraph 5 of HKAS 36.</p> <p>Paragraph 4(1)[†] of the Schedule requires the classification of provisions under headings appropriate to the company's business.</p> <p>Paragraph 7*[†] of the Schedule requires the disclosure of the source of any increase and the application of any decrease in each sub-heading of provisions.</p>
21	HKAS 37 <i>Provisions, Contingent Liabilities And Contingent Assets</i>
	<p>Paragraph 30(1) of the Schedule defines "provision" as any amount written off or retained by way of providing for depreciation, renewals or diminution in value of assets or any amount retained by way of providing for any known liability of which the amount cannot be determined with substantial accuracy. This definition is wider in scope than the definition in HKAS 37.</p> <p>Paragraph 4(1)[†] of the Schedule requires the classification of provisions under headings appropriate to the company's business.</p> <p>Paragraph 6*[†] of the Schedule requires the disclosure of the aggregate amount of provisions (other than provisions for depreciation, renewals and diminution in value of assets) under separate headings.</p> <p>Paragraph 7*[†] of the Schedule requires the disclosure of the source of any increase and the application of any decrease in each sub-heading of provisions.</p> <p>Paragraph 13(1)(f)*[†] of the Schedule requires the disclosure of the amount set aside to provisions (other than provisions for depreciation, renewals and diminution in value of assets) or the amount withdrawn from such provisions and not applied for the purposes of the provisions, if it is material.</p> <p>Paragraph 12(4)[†] of the Schedule requires the disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured.</p> <p>Paragraph 12(5)[†] of the Schedule requires the disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.</p>

22	HKAS 38 <i>Intangible Assets</i>
	<p>Paragraph 9(1)(b) of the Schedule requires the disclosure of the unamortised balances on patents and trademarks either as separate items or aggregated with any unamortised balance of goodwill. This requirement applies whether the patents and trademarks are carried as balances in the books or can only be ascertained from contracts or documents.</p> <p>The amortisation treatment involves the allocation of the depreciable amount of an intangible asset over the best estimate of its useful life and can be regarded as depreciation within the meaning of the Schedule. Therefore, the disclosure requirements of paragraph 13(1)(a)*[†] of the Schedule apply and the amount charged to revenue for amortisation of an intangible asset should be disclosed.</p>
23	HKAS 40 <i>Investment Property</i>
	<p>Paragraph 5*[†] of the Schedule requires disclosure of the aggregate amount of the cost or valuation of fixed assets under appropriate headings and of the aggregate amount provided or written off since the date of acquisition or valuation for depreciation or diminution in value.</p> <p>Paragraph 10 of the Schedule requires that where any liability of the company is secured otherwise than by operation of law on any assets of the company, the fact that that liability is so secured shall be stated, but it shall not be necessary to specify the assets on which the liability is secured.</p> <p>Paragraph 12(4)[†] of the Schedule requires disclosure of particulars of any charge on the assets of the company to secure the liabilities of any other person, including, where practicable, the amount secured.</p> <p>Paragraph 12(7)*[†] of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period:</p> <ol style="list-style-type: none"> a. the name of the persons who valued them or particulars of their qualifications for doing so; and b. the bases of valuation used by such persons. <p>Paragraph 12(8)*[†] of the Schedule requires disclosure of the aggregate amounts of fixed assets acquired or disposed of during the year under each heading. Where fixed assets include land, paragraph 12(9)* requires separate disclosure of the amounts ascribable to:</p> <ol style="list-style-type: none"> a. land in Hong Kong held on long lease, medium-term lease and short lease respectively; and b. land outside Hong Kong held freehold, on long lease, medium-term lease and short lease respectively.

	<p>Under paragraph 13(1)(a)*[†] of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.</p> <p>Paragraph 13(1)(h)[†] of the Schedule requires disclosure of rental income from land and buildings (after deduction of ground rents, rates and other out-goings) if a substantive part of the company's revenue for the financial year consists of such rents.</p>
24	HKAS 41 Agriculture
	<p>Paragraph 12(5)[†] of the Schedule requires disclosure of the general nature of any other contingent liabilities not provided for, and, when practicable, the aggregate amount or estimated amount of those liabilities, if it is material.</p> <p>Paragraph 12(7)*[†] of the Schedule requires disclosure of the years in which fixed assets were severally valued and their respective values, and in the case of assets valued during the financial period:</p> <ol style="list-style-type: none"> a. the names of the persons who valued them or particulars of their qualifications for doing so; and b. the bases of valuation used by such persons. <p>Under paragraph 13(1)(a)*[†] of the Schedule disclosure must be made of the amount charged to revenue by way of provision for depreciation, renewals or diminution in value of fixed assets.</p>

Notes: * These requirements do not apply to banking companies that are entitled to certain disclosure exemptions under Part III of the Schedule.

[†] These requirements do not apply to insurance companies that are entitled to certain disclosure exemptions under Part III of the Schedule.

◊ This revised S161B of the CO came into operation for relevant transactions entered into by the company after 13 February 2004.

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. In Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and Interpretations, applicable at December 2003:~~

~~(a) references to ‘net profit or loss’ are amended to ‘profit or loss’;~~

~~(b) references to ‘notes to the financial statements’ are amended to ‘notes’; and~~

~~(c) references to ‘equity capital’ are amended to ‘contributed equity’.~~

~~A2. In the Preface to Hong Kong Financial Reporting Standards, paragraph 16 is amended to read as follows:~~

~~16. HKAS 1 *Presentation of Financial Statements* includes the following requirement:~~

~~“An entity whose financial statements comply with HKFRSs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with HKFRSs unless they comply with all the requirements of HKFRSs.”~~

~~A3. Paragraphs 69 and 70 of HKAS 12 *Income Taxes* are deleted.~~

~~A4. In HKAS 19 *Employee Benefits*, paragraph 23 is amended to read as follows:~~

~~23. Although this Standard does not require specific disclosures about short-term employee benefits, other Standards may require disclosures. For example, HKAS 24 *Related Party Disclosures* requires disclosures about employee benefits for key management personnel. HKAS 1 *Presentation of Financial Statements* requires disclosure of employee benefits expense.~~

~~A5. In Appendix B to HKAS 19, in the section headed Employee Benefit Obligations, the reference to “Total, included in ‘staff costs’” is amended to “Total, included in ‘employee benefits expense’”.~~

~~A6. HKAS 34 *Interim Financial Reporting* is amended as described below.~~

~~Paragraph 5 is amended to read as follows:~~

- ~~5. HKAS 1 defines a complete set of financial statements as including the following components:~~
- ~~(a) a balance sheet;~~
 - ~~(b) an income statement;~~
 - ~~(c) a statement of changes in equity showing either:

 - ~~(i) all changes in equity, or~~
 - ~~(ii) changes in equity other than those arising from transactions with equity holders acting in their capacity as equity holders;~~~~
 - ~~(d) a cash flow statement; and~~
 - ~~(e) notes, comprising a summary of significant accounting policies and other explanatory notes.~~

~~Paragraph 12 is amended to read as follows:~~

- ~~12. HKAS 1 provides guidance on the structure of financial statements. The Implementation Guidance for HKAS 1 illustrates ways in which the balance sheet, income statement and statement of changes in equity may be presented.~~

~~Paragraph 13 is amended to read as follows:~~

- ~~13. HKAS 1 requires a statement of changes in equity to be presented as a separate component of an entity's financial statements, and permits information about changes in equity arising from transactions with equity holders acting in their capacity as equity holders (including distributions to equity holders) to be shown either on the face of the statement or in the notes. An entity follows the same format in its interim statement of changes in equity as it did in its most recent annual statement.~~

~~A7. Paragraphs 39 and 40 of HKAS 35 *Discontinuing Operations* are amended to read as follows:~~

- ~~39. The disclosures required by paragraphs 27-37, except for the disclosure of the amount of the pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to the discontinuing operation in accordance with paragraph 31(a), may be presented either in the notes or on the face of the balance sheet, income statement or statement of changes in equity.~~

- ~~40. HKAS 1 *Presentation of Financial Statements* requires the pre-tax gain or loss recognised on the disposal of assets or settlement of liabilities attributable to discontinuing operations to be presented on the face of the income statement. The disclosures required by paragraph 27(f) and (g) are~~

