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Audit

# China's New Accounting Standards.

A comparison with current PRC GAAP and IFRS

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## Foreword

The development of new Chinese accounting standards is an important step for the development of the Chinese economy and its place in the world's increasingly integrated capital markets. The adoption of the new Chinese accounting standards system brings about substantial convergence between Chinese standards and International Financial Reporting Standards (IFRSs), as set by the International Accounting Standards Board (IASB). Like the United States and Japan, China is now committed to convergence with IFRS.

The benefits of these accounting reforms for China are clear. The new Chinese standards that incorporate accounting principles familiar to investors worldwide will encourage investor confidence in China's capital markets and financial reporting and will be an additional spur for investment from both domestic and foreign sources of capital. For Chinese companies that are increasingly playing a global role, the acceptance of the new standards should also reduce the cost of complying with the accounting regimes of the different jurisdictions in which they operate.

While the adoption of the new Chinese standards means great change for companies in China, I do not see this as the end of the efforts to achieve convergence between Chinese accounting standards and IFRSs. As both the Ministry of Finance and the IASB have acknowledged, convergence is a process. The intention is that a company applying Chinese accounting standards should produce financial statements that are the same as those of a company that applies IFRSs. I believe that is a realistic and desirable goal in the light of the progress that has been made.

In the coming months and years, the IASB will intensify its convergence efforts in China, reflecting the increasingly important role that Chinese companies and investors play in the world's integrating markets. We are also delighted that those developing and applying Chinese standards are participating in many of the IASB's activities. Our oversight body, the International Accounting Standards Committee Foundation, recently appointed Liu Zhongli, President of the Chinese Institute of Certified Public Accountants and former Minister of the Ministry of Finance, to the organisation's Trustees. Wang Jun, Vice-Minister of the Ministry of Finance, serves on our Standards Advisory Council. And we have the benefit, for the second time, of having a senior staff member from the Ministry of Finance in residence on our staff.

I welcome this contribution by Deloitte as a further step in facilitating convergence between IFRSs and Chinese accounting standards.

Sir David Tweedie  
Chairman  
International Accounting Standards Board

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# Chinese Accounting - New Era, New Challenge

On 15 February 2006, the Ministry of Finance of the People's Republic of China (the "MoF") formally announced the issuance of the long awaited Accounting Standards for Business Enterprises ("ASBEs") which consist of a new Basic Standard and 38 Specific ASBEs. The ASBEs cover nearly all of the topics under the current International Financial Reporting Standards ("IFRSs") literature and will become mandatory for listed Chinese enterprises from 1 January 2007. Other Chinese enterprises are also encouraged to apply the ASBEs. These standards are substantially in line with IFRSs, except for certain modifications which reflect China's unique circumstances and environment.

## New Accounting Standards for Business Enterprises

ASBE	Title	ASBE	Title
	Basic Standard	20	Business Combinations
1	Inventories	21	Leases
2	Long-term Equity Investments	22	Recognition and Measurement of Financial Instruments
3	Investment Property	23	Transfer of Financial Assets
4	Fixed Assets	24	Hedging
5	Biological Assets	25	Direct Insurance Contracts
6	Intangible Assets	26	Reinsurance Contracts
7	Exchange of Non-Monetary Assets	27	Extraction of Petroleum and Natural Gas
8	Impairment of Assets	28	Accounting Policies, Changes in Accounting Estimates and Correction of Errors
9	Employee Benefits		

10	Enterprise Annuity Fund	29	Events after the Balance Sheet Date
11	Share-based Payment	30	Presentation of Financial Statements
12	Debt Restructuring	31	Cash Flow Statements
13	Contingencies	32	Interim Financial Reporting
14	Revenue	33	Consolidated Financial Statements
15	Construction Contracts	34	Earnings per Share
16	Government Grants	35	Segment Reporting
17	Borrowing Costs	36	Related Party Disclosures
18	Income Taxes	37	Presentation of Financial Instruments
19	Foreign Currency Translation	38	First-time Adoption of Accounting Standards for Business Enterprises

During the formulation of the ASBEs, as highlighted in the Joint Statement by the China Accounting Standards Committee ("CASC") and the chairman of the International Accounting Standards Board ("IASB") in November 2005, the MoF identified a number of accounting areas where they might contribute to the IASB's objective of developing high quality solutions for IFRSs. These include disclosure of related party transactions (i.e. the state-controlled entities), business combinations of entities under common control and fair value measurement. We believe the MoF will continue to work toward international convergence and also contribute significantly to achieving the IASB's objective of a single set of global accounting standards.

Deloitte Touche Tohmatsu has been engaged since 1993 as consultants to assist the MoF in formulating the accounting standards and is honoured to be part of this historical moment where China has made such a significant step on the internationalisation of its accounting standards. This publication highlights the key changes the ASBEs will make to accounting in Chinese Mainland and also identifies the remaining differences with IFRSs.

The ASBEs do not simply expand the disclosure requirements. They make fundamental changes to current Generally Accepted Accounting Practice in Chinese Mainland ("PRC GAAP"). Accordingly, they may have a significant impact on the result and/or net asset of enterprises and on the presentation of financial statements. For example:

- The fair values of share-based payment transactions for employee services should be measured and recognised as expenses in the income statement.

- For a business combination not involving entities under common control, the acquisition method should be applied and the assets and liabilities of the acquired enterprise should be measured at fair value.
- Goodwill (similar to the “debit balance of equity investment difference” under current PRC GAAP) and indefinite life intangible assets are no longer amortised, but instead they are tested at least annually for impairment.
- The discount on acquisition of a business (similar to the “credit balance of equity investment difference” under current PRC GAAP) should be credited to profit immediately.
- Minority interests should be presented within equity.
- A non-monetary asset-related grant should be presented as deferred income and recognised as income evenly over the useful life of the asset.
- Development costs should be capitalised if certain criteria are met.
- Borrowing costs incurred for general borrowings should be capitalised if the capitalisation conditions are met.
- Reversals of impairment losses in respect of fixed assets and intangible assets are prohibited.
- All derivatives must be recognised on the balance sheet with changes in fair value taken to profit or loss (unless they are designated as effective hedging instruments).
- Investment property may be measured at fair value provided certain criteria are met and, if so, fair value movements should be reported in profit or loss.
- Non-monetary transactions should be measured at fair value if the commercial substance can be substantiated.
- Gains on debt restructuring should be recognised in profit or loss.
- Finance lease assets should be recognised by the lessee at the lower of fair value and the present value of minimum lease payments.
- The tax payable method is prohibited. The tax effect accounting method should be followed to account for the tax effect of temporary differences.
- An instrument which has both liability and equity components (e.g. convertible bonds) needs to be split and the two components should be accounted for separately.

Although the ASBEs are substantially in line with IFRSs, there are still some differences between the ASBEs and IFRSs. Some of the key differences are:

- ASBE 4 and ASBE 6 only allow the cost model for measurement of fixed assets and intangible assets, while IAS 16 allows a revaluation model.

- Under the ASBEs, land use rights are normally classified as intangible assets and not as operating leases. Where the land use rights meet the criteria to be accounted for as an investment property, the accounting is not restricted to the fair value model as in IAS 40. The cost model may be used.
- For jointly controlled entities, ASBE 2 only allows the equity method of accounting. IAS 31 also allows proportionate consolidation.
- ASBE 8 prohibits the reversal of all impairment losses where IAS 36 only prohibits the reversal of the impairment of goodwill.
- Borrowing costs meeting the capitalisation criteria should be capitalised. However, IAS 23 gives an option to expense all borrowing costs.
- State-controlled entities are not regarded as related parties simply because they are state-controlled. There is no exemption for state-controlled entities under IAS 24.
- Biological assets shall be measured using the cost model unless there is evidence of a reliable fair value under ASBE 5. This is in direct contrast to IAS 41 which requires fair value to be used unless it is clearly unreliable.
- Unlike IFRS 3, ASBE 20 includes and addresses within its scope business combinations involving entities under common control. However, ASBE 20 does not cover reverse acquisitions.
- For presentation purposes, the ASBEs restrict certain options available under IFRSs, for example, expenses shall be analysed by function for income statement presentation purposes, the direct method is required for cash flow statements and only the gross presentation is allowed for government grants related to assets.

The impact of applying the ASBEs should not be underestimated. Some of the wider implications of applying these ASBEs are as follows:

#### **Changes in share prices and credit ratings**

- Where the impact of transition is not transparent, it could make it difficult to assess the underlying performance of the enterprise, leading to damaging market speculation. Therefore it is essential that the impact is effectively communicated to stakeholders.

#### **Impact on key performance indicators (KPIs)**

- The market may expect KPIs across sectors to be comparable, even though the new ASBEs may affect individual companies in different ways. It is essential that any such differences, and the reasons for them, are explained to stakeholders.

### **Impact on gearing and liquidity ratios**

- Loan covenants based on ratios from financial statements may be broken, or become much tighter, leading to uncertainty about the availability of finance. A timely review of agreements should be performed to identify and rectify potential issues.

### **Increased volatility in results**

- The new requirements require greater use of fair values and such measurement will lead to increased volatility in results. Entities will need to explain this to stakeholders.

### **Systems and controls**

- Systems will need to capture data which may not have been required under current PRC GAAP. The necessary modifications and other requirements must be identified early to enable implementation and testing before full reporting is required.

### **Training**

- Accounting staff, and other members of staff making operational decisions, and those charged with governance will need to have sufficient knowledge and understanding of the new requirements under ASBEs. Sufficient training will be required.

### **Distributions and dividend policy**

- The new requirements may affect the ability of an enterprise to make distributions. Entities will need to assess the impact on their dividend policy and communicate this clearly to stakeholders.

### **Taxation**

- The new ASBEs may have an impact on tax treatments. An accurate assessment of the full tax implications may be difficult to perform until precise details of the taxation authorities' treatment of these changes are known.

Although the new ASBEs are only effective from 1 January 2007, listed enterprises are required to present comparative information for their 2007 financial statements. Therefore, listed enterprises are encouraged to commence preparing the 2006 financial statements under the new ASBEs in near future. This will be an important step in the successful transition to the ASBEs in 2007 for listed Chinese enterprises.

We trust that readers will find this publication useful in understanding the implications for their financial statements of the new ASBEs. Knowing there are still certain differences between the new ASBEs and IFRSs, this publication does not only provide the critical changes from the current PRC GAAP to the new ASBEs, it also highlights those differences with IFRSs. Readers should be aware that this publication focuses on enterprises preparing financial statements under current PRC GAAP, and only includes a high level summary of major changes and accounting differences. This publication may not have covered other areas that will significantly affect some enterprises. It should not be construed as exhaustive and no attempt has been made to identify differences arising in relation to disclosure requirements. It is also not prepared for the purpose of enterprises operating in special industries (such as the extractive or, banking and insurance industry) or small enterprises.

This publication is a general accounting comparison. To ensure proper application of the new ASBEs, readers should assess the specific circumstances of each transaction and determine the proper accounting treatment on a reasonable basis in accordance with the original text of the ASBEs and the guidance to be issued by the MoF (the MoF has not yet issued the guidance to the new ASBEs at the date of this publication). We will also update the content of this publication continuously to reflect any new accounting pronouncements or guidelines to be issued by the MoF in future.

# Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE Basic Standard	<ul style="list-style-type: none"> <li>• Reaffirms the definitions of “assets” and “liabilities” which are the same as IFRSs.</li> <li>• Reaffirms the concept of “substance over form”.</li> <li>• Accounting elements, including assets, liabilities, revenue and expenses shall only be recognised when the definition and the recognition conditions are satisfied.</li> <li>• Adds new definitions for “gains” and “losses” which are the same as IFRSs.</li> <li>• Accounting elements are generally required to be measured at historical cost. If the accounting elements are measured at replacement cost, net realisable value, present value or fair value, the enterprise shall ensure such amounts are available for all the accounting elements concerned and can be determined reliably.</li> </ul>
ASBE 1 Inventories	<ul style="list-style-type: none"> <li>• Prohibits the use of the LIFO formula to assign the cost of inventories.</li> <li>• The cost of inventories contributed by an investor, except where this value is clearly not fair, shall be determined according to the value stipulated in the investment contract or agreement.</li> <li>• ASBE 1 standardises the measurement principle for inventories and removes the exemption for commodity distribution enterprises under current PRC GAAP.</li> </ul>

# Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 1 Presentation of Financial Statements Framework for the Preparation and Presentation of Financial Statements	<p><b>Prudence</b> - The ASBE specifies an enterprise shall exercise prudence in the recognition, measurement and reporting of transactions or events for accounting purposes. It shall not overstate assets or income, nor shall it understate liabilities or expenses. Under the IASB’s Framework for the Preparation and Presentation of Financial Statements, prudence is only one of the qualitative characteristics of financial statements and the information contained in financial statements should also be neutral, that is, free from bias.</p>
IAS 2 Inventories	-

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 2 Long-term Equity Investments	<ul style="list-style-type: none"> <li>• In the separate financial statements of the parent, a subsidiary shall be accounted for using the cost method instead of the equity method.</li> <li>• Changes the initial measurement requirement of long-term equity investments acquired through business combinations involving entities under common control:               <ul style="list-style-type: none"> <li>- if the acquirer and the acquiree are ultimately controlled by the same party or parties both before and after the business combination (i.e. “common control”), and that control is not transitory, the initial cost of acquisition shall be adjusted to reflect the share of the original carrying amount of net assets of the acquiree and any difference (between the actual consideration and the share of the original carrying amount of net assets of the acquiree) shall be adjusted to capital surplus or retained earnings, as appropriate.</li> </ul> </li> <li>• If an enterprise is able to exercise joint control or significant influence over an investee, the investee shall be accounted for using the equity method. Under the equity method, the investor shall recognise its share of profit after making appropriate adjustments thereto based on the value of the investee’s identifiable assets at the time of acquisition. This is not addressed under current PRC GAAP.</li> <li>• Under the equity method, if the accounting policies adopted by the investee are different from those of the investor, adjustments shall be made to ensure that the investee’s accounting policies conform to those of the investor. This is not addressed under current PRC GAAP.</li> <li>• Under the equity method, any changes in the investee’s owners’ equity (other than net profit or losses) included in the owners’ equity of the investor shall be transferred to profit or loss upon disposal of the investee.</li> <li>• Other equity investments shall be measured at fair value or at cost depending on whether a reliable fair value is available.</li> <li>• In assessing an enterprise’s ability to control or to exercise significant influence over another enterprise, the effect of “potential voting rights” shall be considered.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 27 Consolidated and Separate Financial Statements  IAS 28 Investments in Associates  IAS 31 Interests in Joint Ventures	<p><b>Separate financial statements of the parent</b> - IAS 27 requires subsidiaries, associates and jointly controlled entities to be accounted for in the separate financial statements of the parent either at cost or in accordance with IAS 39. ASBE 2 requires: (1) subsidiaries to be stated at cost; (2) associates and jointly controlled entities to be accounted for using the equity method.</p> <p><b>Consolidated financial statements of the venturer</b> - Under IAS 31, a venturer shall recognise its interest in a jointly controlled entity either using proportionate consolidation or the equity method. However, ASBE 2 only allows the equity method.</p> <p><b>Jointly controlled operations/assets</b> - ASBE 2 does not address the accounting treatment for jointly controlled operations/assets.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 3 Investment Property	<ul style="list-style-type: none"> <li>• “Investment properties” is an additional line item to be presented separately in the balance sheet and, except as set out below, they are accounted for using the cost model in the same way as fixed assets. Under current PRC GAAP, investment properties are either accounted for as fixed assets (subject to depreciation) or other long-term assets (for property developers, and subject to amortisation).                             <ul style="list-style-type: none"> <li>- If there is clear evidence that the fair value of an investment property can be reliably determinable on a continuing basis, the fair value model may be used.</li> <li>- If the fair value model is used, no depreciation or amortisation is provided. The difference between the fair value and the carrying amount is recognised directly in profit or loss.</li> </ul> </li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 40 Investment Property	<p><b>Scope</b> - In addition to those properties within the scope of ASBE 3, IAS 40 also includes land held for undetermined use and certain property interests under an operating lease provided that certain criteria are met.</p> <p><b>Measurement</b> - With certain specific exceptions, an enterprise shall adopt the same accounting policy for all its investment properties. ASBE 3 does not have the same requirement.</p> <p><b>Land use rights</b> - Under IAS 40, an enterprise may classify land use rights held for rental purposes as an investment property provided the fair value model is adopted. ASBE 3 allows land use rights held for rental purposes to be classified as investment property using the cost model or the fair value model (provided the fair value can be reliably determinable on a continuing basis).</p>



Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 4 Fixed Assets (excluding investment properties under ASBE 3)	<ul style="list-style-type: none"> <li>• Under current PRC GAAP, there are two recognition principles for initial costs and subsequent expenditure.                             <ul style="list-style-type: none"> <li>- Initial costs shall be capitalised when it is probable that future economic benefits will flow to the enterprise and the initial cost can be measured reliably.</li> <li>- Subsequent expenditure is capitalised when it is probable that the expenditure will improve the condition of the asset beyond its originally assessed standard of performance.</li> </ul> </li> <li>• ASBE 4 adopts a single general recognition principle for both initial costs and subsequent expenditure (i.e. the first recognition principle set out above).</li> <li>• Dismantling and removal expenses are now included in the cost of a fixed asset.</li> <li>• If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit or capitalised according to the requirement of ASBE 17, Borrowing Costs.</li> <li>• Re-defines residual value as “an amount an enterprise would currently receive for the asset if the asset were already of the age and in the condition expected at the end of its useful life.”</li> <li>• Requires a review of the residual value and the useful life of an asset, as well as the depreciation method applied to an asset, at least at each financial period end. Current PRC GAAP requires an enterprise to conduct a review of the above on a periodic basis.</li> <li>• Requires derecognition of the carrying amount of each component of a fixed asset which has been replaced and the cost of the replacement to be included in the carrying amount of the asset.</li> <li>• The cost of fixed assets contributed by an investor shall be determined according to the value stipulated in the investment contract or agreement, except where the value stipulated in the investment contract or agreement is clearly not fair.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 16 Property, Plant and Equipment	<p><b>Revaluation</b> - IAS 16 allows both the cost model and the revaluation model. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. ASBE 4 only allows the cost model.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 5 Biological Assets	<ul style="list-style-type: none"> <li>• “Biological assets” is an additional line item to be presented separately in the balance sheet. Unless there is evidence that the fair value of biological assets can be reliably obtainable on a continuing basis, the cost model shall be used to measure biological assets.</li> <li>• ASBE 5 formalises the current practice and provides more guidance on how to account for different types of biological assets using the cost model.</li> <li>• Under the cost model:               <ul style="list-style-type: none"> <li>- impairment losses in respect of consumable biological assets (biological assets held for sale or biological assets to be harvested as agricultural produce in future) shall be reversed provided certain conditions are met;</li> <li>- impairment losses in respect of bearer biological assets (biological assets held for the production of agricultural produce, provision of services or rental) shall not be reversed;</li> <li>- impairment losses shall not be recognised for welfare biological assets (biological assets held primarily for providing shelter or for environmental protection purposes).</li> </ul> </li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 41 Agriculture	<p><b>Measurement</b> - Under ASBE 5, the cost model shall be used to measure biological assets unless there is evidence that the fair value of biological assets can be reliably obtainable on a continuing basis. Under IAS 41, the fair value model shall be adopted for all biological assets, unless the estimate of fair value is clearly unreliable.</p> <p><b>Disclosure</b> - An enterprise is encouraged to provide quantified description of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets. There is no “welfare biological asset” classification.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 6 Intangible Assets	<ul style="list-style-type: none"> <li>• If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit or capitalised according to the requirement of ASBE 17, Borrowing Costs.</li> <li>• The amortisation method shall reflect the pattern in which the asset's future economic benefits are expected to be consumed. If that pattern cannot be determined reliably, the straight-line method shall be used. Current PRC GAAP only allows the straight-line method.</li> <li>• The depreciable amount is the cost of the intangible asset less its residual value. Current PRC GAAP does not consider the residual value.</li> <li>• An intangible asset with an indefinite useful life is not amortised, but are tested for impairment at least annually in accordance with ASBE 8. Current PRC GAAP requires all intangible assets to be amortised and tested for impairment at least annually.</li> <li>• Development costs shall be capitalised provided specific criteria have been met.</li> <li>• For intangible assets with finite life, ASBE 6 requires a review of the useful life and amortisation method of an asset at least at each accounting period end. For intangible assets with an indefinite life, ASBE 6 requires a review of the useful life on a periodic basis. Current PRC GAAP does not address how frequent the useful life or the amortisation method shall be reviewed.</li> </ul>
ASBE 7 Exchange of Non- Monetary Assets	<ul style="list-style-type: none"> <li>• Requires the measurement of exchanges of non-monetary assets at fair value unless the exchange transaction lacks commercial substance. If an exchange transaction lacks commercial substance, the treatment is consistent with current PRC GAAP, i.e. the asset acquired shall be measured at the carrying amount of the asset given up.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 38 Intangible Assets	<p><b>Revaluation</b> - IAS 38 allows both the cost model and the revaluation model (where fair value can be determined by reference to a price quoted in an active market). ASBE 6 only allows the cost model.</p>
IAS 16 Property, Plant and Equipment  IAS 38 Intangible Assets	<p><b>Scope</b> - Under IFRSs, there is no specific standard that deals with the exchange of non-monetary assets. The requirements for different type of assets are set out in IAS 16, IAS 38 and also in IAS 18. ASBE 7 deals with all types of non-monetary transactions, including inventories, fixed assets, intangible assets and long-term equity investments. The measurement principle of ASBE 7 is the same as IAS 16 and IAS 38 (i.e. the "commercial substance" test). However, IAS 16 and IAS 38 only applies to fixed assets and intangible assets. IAS 18 adopts a different approach – an exchange of goods or services is measured at fair value only when the goods exchanged or services are dissimilar.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 8 Impairment of Assets	<ul style="list-style-type: none"> <li>Recoverable amount shall be estimated for individual assets. If it is not possible to estimate the recoverable amount of an individual asset, an enterprise shall determine the recoverable amount of the asset group to which the asset belongs. Once an asset group is identified, it shall not be changed arbitrarily. Under current PRC GAAP, an impairment test is only required to be performed for individual assets and the concept of “asset group” is not addressed.</li> <li>Provides more guidance leading to stricter requirements for impairment testing.</li> <li>Prohibits the reversal of all previously recognised impairment losses within the scope of ASBE 8.</li> </ul>
ASBE 9 Employee Benefits	<ul style="list-style-type: none"> <li>Under current PRC GAAP, (1) salaries, bonuses, allowances and subsidies, (2) staff welfare, (3) union running costs and employee education costs, (4) various social security contributions, (5) non-monetary benefits, (6) housing funds and (7) other related expenses incurred in exchange for service rendered by employees, are within the scope of employee benefits. Under ASBE 9, compensation to employees for termination of the employment relationships is also within the scope of employee benefits.</li> <li>Requires an enterprise to recognise a liability in the period the services are provided at the amount of employee benefits payable for that service. Under current PRC GAAP, a liability is only recognised for salaries, bonuses, allowances and subsidies, staff welfare, union running costs and employee education costs. Other employee benefits are expensed when they are paid.</li> <li>Requires a liability to be recognised for compensation to employees for termination of employment relationships when the enterprise has a formal plan and it cannot unilaterally withdraw from that plan. Under current PRC GAAP, such compensation is normally expensed when it is paid.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 36 Impairment of Assets	<p><b>Reversal of impairment losses</b> - ASBE 8 prohibits the reversal of all impairment losses but IAS 36 only prohibits the reversal of impairment loss for goodwill.</p>
IAS 19 Employee Benefits	<p><b>Defined benefit plans</b> - Requires the recognition of a defined benefit liability and an expense throughout the expected service period of the related employees. ASBE 9 does not address the accounting requirements for defined benefit plans.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 10 Enterprise Annuity Fund	<ul style="list-style-type: none"> <li>Under current PRC GAAP, there is no specific requirement that deals with enterprise annuity funds.</li> <li>An enterprise annuity fund is a supplementary retirement insurance fund (set up in accordance with related laws as a defined contribution plan) which is formed from the amounts raised under an enterprise annuity fund plan and the investment and operation earnings of the fund.</li> <li>An enterprise annuity fund shall be regarded as an individual entity for accounting (i.e. recognition, measurement and presentation) purposes.</li> <li>Financial assets obtained by an enterprise annuity fund shall be measured at fair value with changes between the carrying amount and the fair value recognised in profit or loss.</li> </ul>
ASBE 11 Share-based Payment	<ul style="list-style-type: none"> <li>Requires an enterprise to recognise share-based payment transactions for services provided by employees and other parties. Current PRC GAAP does not address the accounting for share-based payments.</li> </ul>
ASBE 12 Debt Restructuring	<ul style="list-style-type: none"> <li>Debt restructuring is now defined as an event in which a debtor is in financial difficulty and a creditor grants a concession to the debtor in accordance with a mutual agreement or a court judgment. Under current PRC GAAP, “debt restructuring” includes all arrangements that result in modifications of the terms of a debt obligation.</li> <li>ASBE 12 requires the assets or equity interests received or surrendered by the debtor or the creditor to be measured at fair value. The resulting gains or losses shall be recognised in profit or loss. Under current PRC GAAP, fair value is not used and the resulting gain is credited to the “capital reserve”.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 26 Accounting and Reporting by Retirement Benefit Plans	<p><b>Defined benefit retirement plans</b> - IAS 26 applies to all retirement benefit plans and prescribes the accounting and reporting by defined contribution plans and defined benefit plans. ASBE 10 does not deal with the accounting by defined benefit plans because they are not allowed under the existing PRC rules.</p>
IFRS 2 Share-based Payment	<p><b>Scope</b> - IFRS 2 requires an entity to recognise share-based payment transactions (in which the entity receives goods or services) in its financial statements, including transactions with employees or other parties. ASBE 11 only covers the accounting for share-based payment transactions for which services are received.</p> <p><b>Equity settled with cash alternatives</b> - Not addressed in ASBE 11 as this type of share-based payment is very rare in China.</p>
IAS 39 Financial Instruments: Recognition and Measurement	<p>Accounting for debt restructuring is covered in IAS 39, which is consistent with ASBE 12.</p> <p>However, the principles of derecognition of debts are not covered in ASBE 12.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 13 Contingencies	<ul style="list-style-type: none"> <li>• Contains guidance on how the recognition and measurement requirements of provisions apply to onerous contracts and restructuring. Under current PRC GAAP, these areas are not specifically addressed.</li> <li>• Where the effect of the time value of money is material, a provision shall be estimated using the present value of the expected future cash outflows.</li> </ul>
ASBE 14 Revenue	<ul style="list-style-type: none"> <li>• Clarifies revenue does not include inflows of economic benefits resulting from equity contributions from owners.</li> <li>• Revenue is measured at the fair value of the consideration after considering the effect of discounting any deferred payments. Under current PRC GAAP, the effect of discounting is generally not considered.</li> <li>• Revenue shall generally be recognised according to the value stipulated in the contract or agreement, except where this value is clearly not fair.</li> <li>• Clarifies if a contract or an agreement comprises both the sale of goods and the rendering of services and these two components cannot be separately identified, or the components are separately identifiable but are not separately measurable, the entire contract or agreement shall be accounted for as a sale of goods.</li> </ul>
ASBE 15 Construction Contracts	<ul style="list-style-type: none"> <li>• Allows borrowing costs to be capitalised (in accordance with ASBE 17) and included as part of contract costs. Current PRC GAAP does not allow capitalisation of borrowing costs as contract costs of construction contracts.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	-
IAS 18 Revenue	-
IAS 11 Construction Contracts	<b>Costs for securing a contract</b> - IAS 11 allows direct costs incurred in securing a construction contract to be included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. ASBE 15 requires such costs to be expensed as incurred.

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 16 Government Grants	<ul style="list-style-type: none"> <li>The recognition principle of government grants has been changed from the cash basis to the accrual basis.</li> <li>Government grants, except for asset related grants set out below, are recognised as income when the enterprise can comply with the conditions (if any) and it is entitled to receive the grant.</li> <li>Government grants in the form of non-monetary assets shall be measured at fair value. Asset-related grants shall be presented as deferred income and recognised as income evenly over the useful life of the related asset. If fair value cannot be obtained, the asset shall be measured at nominal value and the nominal value is recognised directly as income for the current period.</li> <li>Under current PRC GAAP, the whole amount of the asset related grant shall be credited to the “capital reserve” upon completion of construction of the related asset. For government subsidies, they are recognised as income on a cash basis.</li> </ul>
ASBE 17 Borrowing Costs	<ul style="list-style-type: none"> <li>Requires capitalisation of borrowing costs for a broader scope of assets - including inventories and intangible assets, instead of being limited to fixed assets under current PRC GAAP.</li> <li>General borrowing costs are now allowed to be capitalised. Under current PRC GAAP, only borrowing costs on specific borrowings can be capitalised.</li> <li>Borrowing costs that can be capitalised are actual borrowing costs incurred on specific borrowings less any interest income earned from undrawn borrowings and income on the temporary investment of those borrowings. For funds that are borrowed generally, the amount to be capitalised shall be determined by applying a capitalisation rate to the related expenditure on the asset. Under current PRC GAAP, only the amount determined by applying a capitalisation rate of specific borrowings to cumulative expenditures is capitalised. In addition, temporary income earned from undrawn borrowings is not allowed to be deducted from the capitalised amount.</li> </ul>
ASBE 18 Income Taxes	<ul style="list-style-type: none"> <li>Disallows the tax payable method.</li> <li>Adopts the balance sheet liability method to determine deferred tax of temporary differences. Under current PRC GAAP, both the liability method and the deferral method are allowed and deferred tax is recognised for timing differences.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	<p><b>Asset-related grants</b> - IAS 20 allows either the presentation of asset-related grants as deferred income, and their recognition as income on a systematic and rational basis over the useful life of the asset, or the deduction of the grant from the carrying amount of the asset (i.e. recognition as income over the useful life of the depreciable asset by reducing the depreciation charge). ASBE 16 only allows the former method.</p>
IAS 41 Agriculture	<p><b>Biological asset-related grants</b> - IAS 41 requires a conditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs to be recognised as income when the conditions attaching to the grant are met. An unconditional grant is recognised as income when it becomes receivable. ASBE 16 does not provide specific requirements on grants related to biological assets.</p>
IAS 23 Borrowing Costs	<p><b>Capitalise or expense</b> - ASBE 17 requires the capitalisation approach when the capitalisation criteria are satisfied. Under IAS 23, borrowing costs are either expensed as incurred or capitalised provided the capitalisation criteria are met.</p> <p><b>Finance charges in respect of finance leases</b> - ASBE 17 does not deal with finance charges in respect of finance leases which are dealt with under ASBE 21. Whereas, under IAS 23, borrowing costs include finance charges in respect of finance leases.</p> <p>(Remark: In May 2006, the IASB has issued an exposure draft on IAS 23 which proposes to eliminate the option to expense immediately borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset.)</p>
IAS 12 Income Taxes	-

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 19 Foreign Currency Translation	<ul style="list-style-type: none"> <li>• Re-defines recording currency (i.e. equivalent to “functional currency” in IAS 21). Each enterprise shall determine its own recording currency. Selection of recording currency is based on the primary economic environment in which the enterprise operates.</li> <li>• There are special rules for translating financial statements (presented in a foreign currency) of a foreign operation which is operated in hyperinflationary economy to the recording currency.</li> <li>• Upon disposal of a foreign operation, the cumulative amount of exchange differences deferred in a separate component of equity relating to that foreign operation is recognised in profit or loss when the gain or loss on disposal is recognised.</li> </ul>
ASBE 20 Business Combinations	<ul style="list-style-type: none"> <li>• Requires the use of the “pooling of interests method” for business combinations involving entities under common control.</li> <li>• Goodwill/discount on acquisition (similar to the “equity investment differences/consolidation differences” under current PRC GAAP) is the difference between the cost of the acquisition and the acquirer’s share in the fair values (i.e. rather than their carrying amounts under current PRC GAAP) of the identifiable assets and liabilities acquired.</li> <li>• Requires an acquirer to allocate part of the cost of a business combination to the acquiree’s contingent liabilities at fair value (provided their fair value can be measured reliably) at the acquisition date.</li> <li>• Prohibits the amortisation of goodwill.</li> <li>• Discount on acquisition shall be credited to income immediately.</li> <li>• Introduces certain significant new disclosure requirements.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 21 The Effects of Changes in Foreign Exchange Rates	<p><b>Presentation currency</b> - IAS 21 allows a reporting entity to present its financial statements in any currency. ASBE 19 is silent on this issue. However, all PRC enterprises are required to present financial statements in RMB according to PRC laws and regulations.</p>
IFRS 3 Business Combinations	<p>Business combinations involving entities under common control are outside the scope of IFRS 3 but addressed in ASBE 20.</p> <p>Reverse acquisitions are covered in IFRS 3 but are not addressed in ASBE 20.</p>



Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 21 Leases	<ul style="list-style-type: none"> <li>At the commencement of the lease term, a lessee shall recognise a finance lease asset in its balance sheet at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Under current PRC GAAP, a finance lease asset is recorded at the lower of the original carrying amount of the asset and the present value of the minimum lease payments.</li> <li>If there is evidence that a sale and leaseback transaction resulting in an operating lease is established at fair value, the difference between the sales proceeds and the carrying amount of the asset shall be recognised as profit or loss in the current period. Otherwise, the difference between the sales proceeds and the carrying amount of the asset shall be deferred and amortised over the lease term as an adjustment to rental expenses. Under current PRC GAAP, the difference between the sales proceeds and the carrying amount of the asset shall always be deferred and amortised over the lease term.</li> </ul>
ASBE 22 Recognition and Measurement of Financial Instruments	<ul style="list-style-type: none"> <li>This is a comprehensive accounting standard which covers the recognition and measurement of financial instruments. It will potentially affect all enterprises, not only financial institutions. The current "Investments" standard only covers investments in debt and equity securities, whereas ASBE 22 deals with all financial instruments, including equity and debt securities, payables, receivables, derivatives, cash/bank deposits, convertible bonds and preference shares.</li> <li>Introduces several new categories of financial instruments (i.e. Financial assets – (1) loans and receivables, (2) held-to-maturity investments, (3) financial assets measured at fair value through profit and loss, and (4) available-for-sale investments; Financial liabilities – (1) financial liabilities at fair value through profit or loss and (2) other financial liabilities measured at amortised cost using the effective interest method) which may lead to financial instruments currently recognised being measured differently.</li> <li>Requires all financial instruments to be measured at fair value at initial recognition.</li> <li>All derivatives shall be measured at fair value.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 17 Leases	<p><b>Leasehold Land</b> - Under IAS 17, leasehold interest in land shall be classified as an operating lease unless it meets certain criteria and is accounted for as an investment property under the fair value model. Under ASBE 6, leasehold interests in land (i.e. land use rights in China) are accounted for as intangible assets except for land use rights that meet certain criteria and are accounted for as investment properties in accordance with ASBE 3.</p>
IAS 39 Financial Instruments: Recognition and Measurement	-

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 23 Transfer of Financial Assets	<ul style="list-style-type: none"> <li>• The principles under ASBE 23 are very close to the requirements of a recent “securitisation of credit assets” rule issued by the MoF.</li> <li>• In addition to the risks and rewards test as required by current PRC GAAP, ASBE 23 also covers the circumstances in which the enterprise has neither retained nor transferred substantially all of the risks and rewards of the asset. In such circumstances, derecognition is appropriate only if the enterprise does not control the asset. If the enterprise has retained control of the asset, then it continues to recognise the asset to the extent to which it has a continuing involvement in it.</li> </ul>
ASBE 24 Hedging	<ul style="list-style-type: none"> <li>• Under current PRC GAAP, there are no requirements for hedge accounting. Under ASBE 24, there are three types of hedges: (1) fair value hedge; (2) cash flow hedge; and (3) hedge of a net investment in a foreign operation.</li> <li>• Hedge accounting is optional.</li> <li>• To qualify for hedge accounting, an enterprise shall prove the effectiveness of the hedge at inception.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 39 Financial Instruments: Recognition and Measurement	-
IAS 39 Financial Instruments: Recognition and Measurement	-

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 25 Direct Insurance Contracts	<ul style="list-style-type: none"> <li>• This is a new standard that prescribes the recognition, measurement and presentation requirements of direct insurance contracts issued by an insurer.</li> <li>• Current PRC GAAP regulates the accounting and financial reporting by insurers. ASBE 25 prescribes the accounting of insurance contracts.</li> <li>• Clarifies the definition of an insurance contract and introduces the concept of insurance risk. These areas are not dealt with under current PRC GAAP.</li> <li>• With respect to contracts which expose the insurer to both insurance risk and financial risk, the insurer is allowed to unbundle the contract into different components if the insurance risk component and the other risk component can be separately identified and are separately measurable; if the insurance risk component and the other risk component cannot be separately identified or are not separately measurable, the insurer shall account for the entire contract as a direct insurance contract.</li> <li>• Requires an insurer to perform an adequacy test for the claims outstanding reserve, the life insurance reserve and the long-term medical insurance reserve, at least at each year end.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IFRS 4 Insurance Contracts	<p><b>Recognition and measurement :</b></p> <ul style="list-style-type: none"> <li>• IFRS 4 does not specify the recognition and measurement requirements with respect to assets, liabilities, income and expenses arising from insurance contracts. In practice, an insurer can continue to use its existing accounting practice. Under ASBE 25, there are specific requirements that apply to income, reserves and costs.</li> <li>• With respect to unbundling, IFRS 4 adds additional guidance on the treatments for contracts with insurance risks and/or financial risks: <ul style="list-style-type: none"> <li>- clarifies that an insurer need not account for an embedded derivative separately at fair value if the embedded derivative meets the definition of an insurance contract;</li> <li>- requires an insurer to separately account for deposit components (contractual components that are not accounted for as financial instruments under IAS 39 but would be within the scope of IAS 39 if they were a separate instrument) of the insurance contracts if not all obligations and rights arising from the deposit component are recognised under the issuer's original accounting policy;</li> <li>- unbundling is permitted, but not required, if all obligations and rights arising from the deposit component are recognised under the issuer's original accounting policy;</li> <li>- unbundling is prohibited if the deposit component is not measurable.</li> </ul> </li> </ul> <p>(Remark: IFRS 4 is the first accounting standard on insurance contracts issued by IASB. The second phase of the development project is still in progress.)</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 26 Reinsurance Contracts	<ul style="list-style-type: none"> <li>• This is a new standard that prescribes the recognition, measurement and presentation requirements of reinsurance contracts issued by an insurance company or assumed by an insurer.</li> <li>• The cedant shall not offset the following items on the balance sheet:               <ul style="list-style-type: none"> <li>- the income or expense from reinsurance contracts against the expense or income from the related direct insurance contracts; and</li> <li>- the reinsurance assets arising from the reinsurance contracts against the related liabilities of the direct insurance contracts.</li> </ul> <p>This is unclear under current PRC GAAP.</p> </li> <li>• The cedant shall recognise the outward reinsurance premiums and commission recoverable from the reinsurer in the period in which the cedant recognises the premium income from the direct insurance contracts. The cedant shall account for the reserves recoverable and claims recoverable under outward reinsurance contracts in the period in which the cedant accounts for the reserves of the direct insurance contracts. Current PRC GAAP requires the cedant to recognise the outward reinsurance premiums and the various recoverable amounts from the reinsurer when the cedant issues a statement of the reinsurance transactions to the reinsurer.</li> <li>• The reinsurer shall recognise the inward premium income when the criteria for income recognition are met. The reinsurer shall, at the same time, determine the commission payable for the inward reinsurance contracts according to the terms of the reinsurance contracts and recognise the amount in the profit or loss for the period. Upon receiving the statement of the reinsurance transactions, the reinsurer shall adjust the relevant inward premium income and commission expenses arising from inward reinsurance contracts according to the amounts indicated in the statement. Current PRC GAAP requires the reinsurer to recognise the inward premium income and relevant expenses upon the receipt of the statement of the reinsurance transactions.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IFRS 4 Insurance Contracts	<p>IFRS 4 applies to insurance contracts including both direct insurance contracts issued by an insurer and reinsurance contracts issued by an insurer or assumed by the insurer/reinsurer. There is no separate standard dealing with reinsurance contracts under IFRSs. Nevertheless, the recognition and measurement requirements of ASBE 26 are generally consistent with the current market practice.</p> <p>Similar to ASBE 26, income/expense and assets/liabilities of reinsurance contracts are presented on a gross basis.</p> <p>IFRS 4 requires an impairment test for reinsurance assets. ASBE 8 requires an impairment test for reinsurance assets to be performed only when there is an impairment indication.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 27 Extraction of Petroleum and Natural Gas	<ul style="list-style-type: none"> <li>• This is a new standard that formalises the current market practice for the petroleum and natural gas extraction industry.</li> <li>• Mineral interests in properties shall be classified as either mineral interests in proved properties (i.e. properties found to contain proved reserves that can be extracted economically) or mineral interests in unproved properties. Expenditures incurred in obtaining mineral interests in properties shall be capitalised as cost when incurred. Expenditures incurred after acquisition of the mineral interests in properties such as fees for use of the exploration right and development right, and any rental payments, shall be charged to profit or loss for the current period.</li> <li>• Exploratory drilling costs incurred shall temporarily be capitalised. If, after completing the drilling of a well, it is discovered that the well contains proved reserves, such exploratory drilling costs shall be capitalised as costs of wells and related equipment. Otherwise, such exploratory drilling costs shall be expensed in the current period unless they continue to meet the temporary capitalisation criteria. Costs other than exploratory drilling costs, such as geological study and geophysical prospecting, shall be expensed as incurred.</li> <li>• For mineral interests in proved properties, an enterprise shall assess whether there is an impairment indication on each balance sheet date in accordance with ASBE 8. For mineral interests in unproved properties, an enterprise shall perform impairment testing at least annually. If the fair value of an unproved property is less than its carrying amount, the difference shall be recognised as an impairment loss. Impairment losses are not reversed in future.</li> <li>• If a portion of an interest in unproved properties (where an impairment loss has been recognised) is transferred, and the consideration obtained is higher than the carrying amount, the excess shall be recognised as a gain. If the consideration obtained is less than the carrying amount, the consideration obtained shall be offset against the cost of the mineral interest in the property and no gain or loss shall be recognised.</li> <li>• ASBE 27 allows the depletion of mineral interests in proved properties using either the straight-line method or the unit-of-production method. Current PRC GAAP only allows the straight-line method.</li> <li>• An enterprise shall recognise an obligation for decommissioning incurred during a particular period if it satisfies the recognition criteria of a provision under ASBE 13.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IFRS 6 Exploration for and Evaluation of Mineral Resources	<p><b>Scope</b> - IFRS 6 applies to expenditure incurred for the exploration and evaluation of mineral resources (including petroleum and natural gas). ASBE 27 covers the accounting treatment of the exploration for, exploitation and production of petroleum and natural gas.</p> <p><b>Measurement</b> - IFRS 6 permits enterprises to continue to use their existing accounting policies for exploration and evaluation assets (either the cost or revaluation model), provided that such policies result in information that is relevant and reliable. At initial recognition, the costs of exploration and evaluation assets include expenditure on topographical, geological, geochemical and geophysical studies. ASBE 27 only allows the cost model and capitalisation of exploratory drilling costs. Costs other than exploratory drilling costs shall be expensed as incurred.</p> <p><b>Impairment</b> - Impairment testing is required only when facts and circumstances suggest the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. IAS 36 does not prevent the reversal of impairment losses. ASBE 27 requires an impairment test to be performed for mineral interests in unproved properties at least annually. For mineral interests in proved properties, impairment testing shall be performed when there is an impairment indication. Impairment losses are not reversed in future.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 28 Accounting Policies, Changes in Accounting Estimates and Correction of Errors	Introduces the term “prior period errors” and removes the concept of “significant accounting errors in prior periods”. An enterprise shall correct material prior period errors by retrospective restatement. Changes in accounting policies shall be accounted for using retrospective application.
ASBE 29 Events after the Balance Sheet Date	-
ASBE 30 Presentation of Financial Statements	<ul style="list-style-type: none"> <li>• Adds the definition for “materiality”.</li> <li>• Adds the requirement to classify assets and liabilities as current and non-current assets, current and non-current liabilities.</li> <li>• When a presentation based on liquidity provides information that is reliable and is more relevant for a financial institution, assets and liabilities may be presented in order of liquidity. This is not addressed under current PRC GAAP.</li> <li>• Comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Current PRC GAAP only requires disclosure of comparative information on the primary statements and selected notes.</li> <li>• In the consolidated income statement, profit attributable to minority interests and profit attributable to owners of the parent shall be presented separately after profit for the year. Profit attributable to minority interests is not presented as a deduction item (as income or an expense) before profit for the year in the income statement as required under current PRC GAAP.</li> <li>• Instead of preparing a statement of profit appropriation, an enterprise shall prepare a statement of changes in equity and present minority interests separately.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	-
IAS 10 Events after the Balance Sheet Date	-
IAS 1 Presentation of Financial Statements	<b>Analysis of expenses</b> - Under ASBE 30, expenses are analysed by function but IAS 1 allows an enterprise to present an analysis of expenses using a classification based on either the nature of expenses or their function, whichever provides information that is reliable and more relevant.

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 31 Cash Flow Statements	-
ASBE 32 Interim Financial Reporting	-

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 7 Cash Flow Statements	<p><b>Reporting cash flows from operating activities</b> - ASBE 31 requires the use of the direct method, accompanied by a note showing the reconciliation of profit to net cash flow from operating activities using the indirect method. Under IAS 7, an enterprise is encouraged to use the direct method but may use the indirect method.</p> <p><b>Dividends and interests</b> - ASBE 31 specifies the appropriate classification for interest received (cash inflow from investing activities) and paid (cash outflow from financing activities) and dividends received (cash inflow from investing activities) and paid (cash outflow from financing activities). Under IAS 7, these items are required to be classified as operating, investing or financing activities in a consistent manner.</p>
IAS 34 Interim Financial Reporting	<p><b>Components of an interim financial report</b> - Unlike IAS 34, ASBE 32 does not require a statement of changes in equity to be presented. IAS 34 allows the presentation of condensed income statement, condensed balance sheet, condensed statement of changes in equity and condensed cash flow statement. However, ASBE 32 requires the interim balance sheet, interim income statement and interim cash flow statements to be complete statements, i.e. the form and content shall conform to the annual financial statements.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 33 Consolidated Financial Statements	<ul style="list-style-type: none"> <li>• Requires a parent to prepare consolidated financial statements. ASBE 33 does not mention whether there are any circumstances where a parent is allowed not to prepare consolidated financial statements – this may be addressed in the guidance to ASBE 33. Under current PRC GAAP, there are three types of enterprises that are required to prepare consolidated financial statements. Other enterprises may also choose to prepare consolidated financial statements voluntarily.</li> <li>• Specifies the scope of consolidation shall be determined based on “control”.</li> <li>• All subsidiaries under the control of a parent shall be consolidated. Under current PRC GAAP, certain subsidiaries are exempted from consolidation, for example, where total assets, sales revenue and profits of the subsidiary are less than 10% of the corresponding amount of the group, subsidiaries declared bankrupt, subsidiaries engaged in specific industries, etc.</li> <li>• A set of consolidated financial statements shall include a consolidated statement of changes in equity. However, the consolidated statement of profit appropriation (under current PRC GAAP) is removed.</li> <li>• For a business combination not under common control, the identifiable net assets of the subsidiary shall be adjusted to their fair values at the date of acquisition when preparing consolidated financial statements.</li> <li>• For a business combination involving enterprises under common control during the reporting period, the consolidated balance sheet includes the net assets of the combining entities using the book values, the consolidated income statements include the results of the combining entities for the full period (including the comparative periods).</li> <li>• If the losses applicable to the minority shareholders in a subsidiary exceed the minority interest in that subsidiary’s owners’ equity at the beginning of the period, the excess is used to reduce minority interest in equity to the extent that the minority shareholder has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the excess is allocated against the owners’ equity of the parent instead of being allocated to “unrecognised investment loss” (under current PRC GAAP).</li> <li>• In assessing an enterprise’s ability to control another enterprise, the effect of “potential voting rights” shall be considered.</li> <li>• The equity method instead of proportionate consolidation shall be use to account for equity interests in jointly controlled entities. Current PRC GAAP requires the use of proportionate consolidation.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 27 Consolidated and Separate Financial Statements	<p><b>Reporting period</b> - When the reporting dates of the parent and a subsidiary are different, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so. In any case, the difference between the reporting date of the subsidiary and that of the parent shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period. ASBE 33 requires the reporting periods of the parent and the subsidiaries to be the same.</p> <p><b>Jointly controlled entities</b> - A venturer may choose the equity method or proportionate consolidation method to account for its interest in a jointly controlled entity. ASBE 33 only allows the use of the equity method.</p>



Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 34 Earnings per Share	<ul style="list-style-type: none"> <li>Requires listed enterprises or enterprises in process of issuing shares and applying for a listing status to disclose the basic and diluted EPS amounts.</li> <li>If the number of shares increases as a result of a stock dividend, capitalisation of surplus reserves or share split or decreases as a result of share consolidation, but there is no effect to the amount of owners' equity, EPS for all periods presented shall be re-calculated on the basis of the adjusted number of shares.</li> <li>Currently, there is no specific accounting standard on EPS but enterprises listed on the PRC stock exchanges are required by the China Securities Regulatory Commission (CSRC) to present the EPS figures in the interim report and annual report in accordance with a simple formula provided by the CSRC rules.</li> </ul>
ASBE 35 Segment Reporting	<ul style="list-style-type: none"> <li>ASBE 35 requires one basis of segmentation to be primary and the other to be secondary, with considerably less information required to be disclosed for the secondary segment. Current PRC GAAP requires the same amount of information to be reported for both business segments and geographical segments.</li> </ul>
ASBE 36 Related Party Disclosures	<ul style="list-style-type: none"> <li>Expands the scope of related party. If two parties are subject to joint control or significant influence from the same party, they are regarded as related parties. Under current PRC GAAP, they are not considered as related parties.</li> <li>If the separate financial statement of the parent is presented together with its consolidated financial statements, information relating to related party relationship and related parties transactions of the parent shall also be disclosed.</li> <li>Disclosures that related party transactions were conducted at fair value are allowed only if the enterprise is able to provide supporting evidence.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 33 Earnings per Share	<p><b>Numerator</b> - IAS 34 requires disclosure of the basic and diluted EPS amounts for profit or loss from continuing operations and those for discontinued operations. ASBE 34 only requires the calculation of EPS based on net profit or loss for the current period.</p>
IAS 14 Segment Reporting	<p><b>Scope</b> - Unless stipulated in other laws or regulations, ASBE 35 requires an enterprise which has different operations or operates in different geographical areas to provide segment information. IAS 14 only applies to the published financial statements of enterprises whose equity or debt securities are publicly traded and enterprises that are in the process of issuing equity or debt securities in public securities markets.</p>
IAS 24 Related Party Disclosures	<p><b>State-controlled entities</b> - ASBE 36 acknowledges state-controlled entities are not regarded as related parties simply because they are state-controlled. However, state-controlled entities are not exempted under IAS 24.</p> <p><b>Two parties subject to joint control or significant influence from the same party</b> - They are clearly defined as related parties under ASBE 36 but this is not specifically addressed in IAS 24.</p>

Comparison with Current PRC GAAP

ASBE	Significant changes from current PRC GAAP
ASBE 37 Presentation of Financial Instruments	<ul style="list-style-type: none"> <li>• Requires the issuer of a financial instrument to classify the instrument, or its component parts, on initial recognition as a financial liability or an equity instrument. If an instrument has both liability and equity components, the instrument needs to be split into two components and the components accounted for separately. There is no similar requirement under current PRC GAAP.</li> <li>• Financial assets and financial liabilities shall be offset and presented on a net basis provided certain criteria are met. Otherwise, they shall be presented separately.</li> <li>• Introduces significant disclosure requirements.</li> </ul>
ASBE 38 First-time Adoption of ASBEs	<ul style="list-style-type: none"> <li>• Only applicable to first-time adopters of the ASBEs issued in 2006.</li> <li>• Describes the transactions and events that require adjustments when an enterprise adopts the ASBEs for the first time to prepare its financial statements (“the first annual financial statements”).</li> <li>• The first annual financial statements shall include at least one year of comparative information prepared under the ASBEs.</li> </ul>

Comparison with IFRSs

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
IAS 32 Financial Instruments: Disclosure and Presentation  IFRS 7 Financial Instruments: Disclosures	-
IFRS 1 First-time Adoption of IFRSs	The objective of IFRS 1 (i.e. to prescribe the accounting by an enterprise that adopts IFRSs for the first time) is the same as ASBE 38. Similar to ASBE 38, IFRS 1 contains the transactions and events that require adjustments when an enterprise adopts IFRSs for the first time to prepare its financial statements.

**Comparison with Current PRC GAAP**

ASBE	Significant changes from current PRC GAAP
	<p>Except as set out below, there is no ASBE equivalent dealing with the accounting and presentation of non-current assets held for sale and discontinued operations.</p> <ul style="list-style-type: none"> <li>ASBE 30 requires the disclosure of the post-tax profit of discontinued operations and an analysis of the amount.</li> <li>ASBE 4 requires the disclosure of fixed assets to be disposed of (including the name, carrying amount and fair value of those fixed assets and the estimated disposal costs and expected time of disposal).</li> </ul>
	<p>Since China is not a hyperinflationary economy, there is no ASBE equivalent of IAS 29. However, ASBE 19 prescribes the translation requirements of financial statements of a foreign operation which is operating in a hyperinflationary economy.</p>

**Comparison with IFRSs**

Equiv. IAS/IFRS	Key differences with equivalent IAS/IFRS
<p>IFRS 5 Non-current Assets Held for Sale and Discontinued Operations</p>	<p>IFRS 5 prescribes the classification, measurement and presentation requirements of non-current assets held for sale (including disposal groups) and the presentation requirements of discontinued operations.</p>
<p>IAS 29 Financial Reporting in Hyperinflationary Economies</p>	<p>IAS 29 applies to the financial statements of any entity whose functional currency is the currency of a hyperinflationary economy. In this case, whether the financial statements are based on a historical cost approach or a current cost approach, they shall be stated in terms of the measuring unit current at the balance sheet date.</p>

# Appendix: List of IFRSs, IASs and Interpretations

## Framework for the Preparation and Presentation of Financial Statements

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 6	Exploration for and Evaluation of Mineral Resources
IFRS 7	Financial Instruments: Disclosures
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs

IAS 24	Related Party Disclosures
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 29	Financial Reporting in Hyperinflationary Economies
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 34	Interim Financial Reporting
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IAS 41	Agriculture
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
SIC 7	Introduction of the Euro
SIC 10	Government Assistance – No Specific Relation to Operating Activities
SIC 12	Consolidation – Special Purpose Entities
SIC 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
SIC 15	Operating Leases – Incentives

SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
SIC 29	Disclosure – Service Concession Arrangements
SIC 31	Revenue – Barter Transactions Involving Advertising Services
SIC 32	Intangible Assets – Web Site Costs

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