<u>Summary of main changes in the SME-FRF & SME-FRS (Revised) as compared to the 2008 Exposure Draft</u>

- The guidance on the common control exemption for business combination accounting has been expanded by pointing preparers in the direction of Accounting Guideline 5 *Merger Accounting for Common Control Combinations* or book value accounting for these transactions;

- Additional guidance has been added on the 12 month "measurement period" allowed for adjustments in a business combination (consistent with HKFRS 3 Business Combinations);

- The guidance on step-by-step acquisitions and disclosure for post balance sheet business combinations has been deleted as considered too complex and/or unusual for the SME-FRS;

- Consistent with the simplified approach taken to intangible assets acquired in a business combination, the requirements for when an impairment loss needs to be reversed have been simplified (i.e. in both cases the requirement need not be followed if fair value information is not readily available);

- The exemption criteria from preparing consolidated financial statements has been aligned fully with the criteria in the Companies Ordinance and non-consolidated financial statements are referred to consistently as "company-level" rather than "separate" as being a clearer term for these;

- The term "non-controlling interests" instead of "minority interest" has been used and the process for allocating losses to the non-controlling interests has been aligned with full HKFRS;

- The approach to grossing-up goodwill for non-controlling interests when computing if there is an impairment loss has been clarified in section 9. In addition, a worked example is included in the appendix to show how this computation is carried out;

- An "undue cost or effort" exemption has been included for recycling the foreign translation reserve to profit or loss on disposal;

- The equity method for investments in associates and joint ventures had been given as an alternative policy choice in the consolidated financial statements – the benchmark treatment is to use the cost method for either or both of these types of investments, being the same as for all other investments; and

- The concept of joint ventures has been aligned more closely to HKFRS 11 *Joint Arrangements* by making a distinction between joint ventures and "other forms of joint arrangement". This does not materially change the accounting requirements in the SME-FRS compared to the exposure draft.