

Joint Declaration of the China Accounting Standards Committee and the Hong Kong Institute of Certified Public Accountants on the converged China Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards

Annex I

Elaboration by the Hong Kong Institute of Certified Public Accountants on the background to the comparison project and the comparison process

I. Background to the comparison project

1. Mr. Wang Jun, Secretary-General of the China Accounting Standards Committee of the People's Republic of China, and Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB), signed a joint statement on 8 November 2005 in Beijing in respect of China's achievement on the convergence of the new China Accounting Standards for Business Enterprises (ASBEs) with International Financial Reporting Standards (IFRSs) with a limited number of differences. In addition, at the MOF's ceremony announcing the adoption of the new China ASBEs held on 15 February 2006 in Beijing, Sir David Tweedie also made his comments on China's achievement – the adoption of the new ASBEs has brought about substantial convergence between Chinese standards and IFRSs.
2. The Hong Kong Institute of Certified Public Accountants (Hong Kong Institute of CPAs) concurred with the joint declaration signed between the MOF and the IASB and Sir David's comments on China's progress of convergence of the new China ASBEs with IFRSs. Mr. Liu Yuting, Director-General, Administrative Office of the China Accounting Standards Committee and Ms. Winnie Cheung, Chief Executive and Registrar of the Hong Kong Institute of CPAs, signed a joint declaration on 12 May 2006 announcing that the new Chinese Accounting Standards System has achieved substantial convergence with HKFRSs. That joint declaration also sets out the commitment from both sides to further strengthen communication and enhance future cooperation on financial reporting standards matters and endeavour to uphold high quality IFRSs.

3. Following on from the commitment from both sides to further strengthen communication and cooperation, a MOF/HKICPA Convergence Joint Working Group was formed in early 2007 to prepare a detailed comparison between the China ASBEs and HKFRSs.

II. The Scope of the Comparison

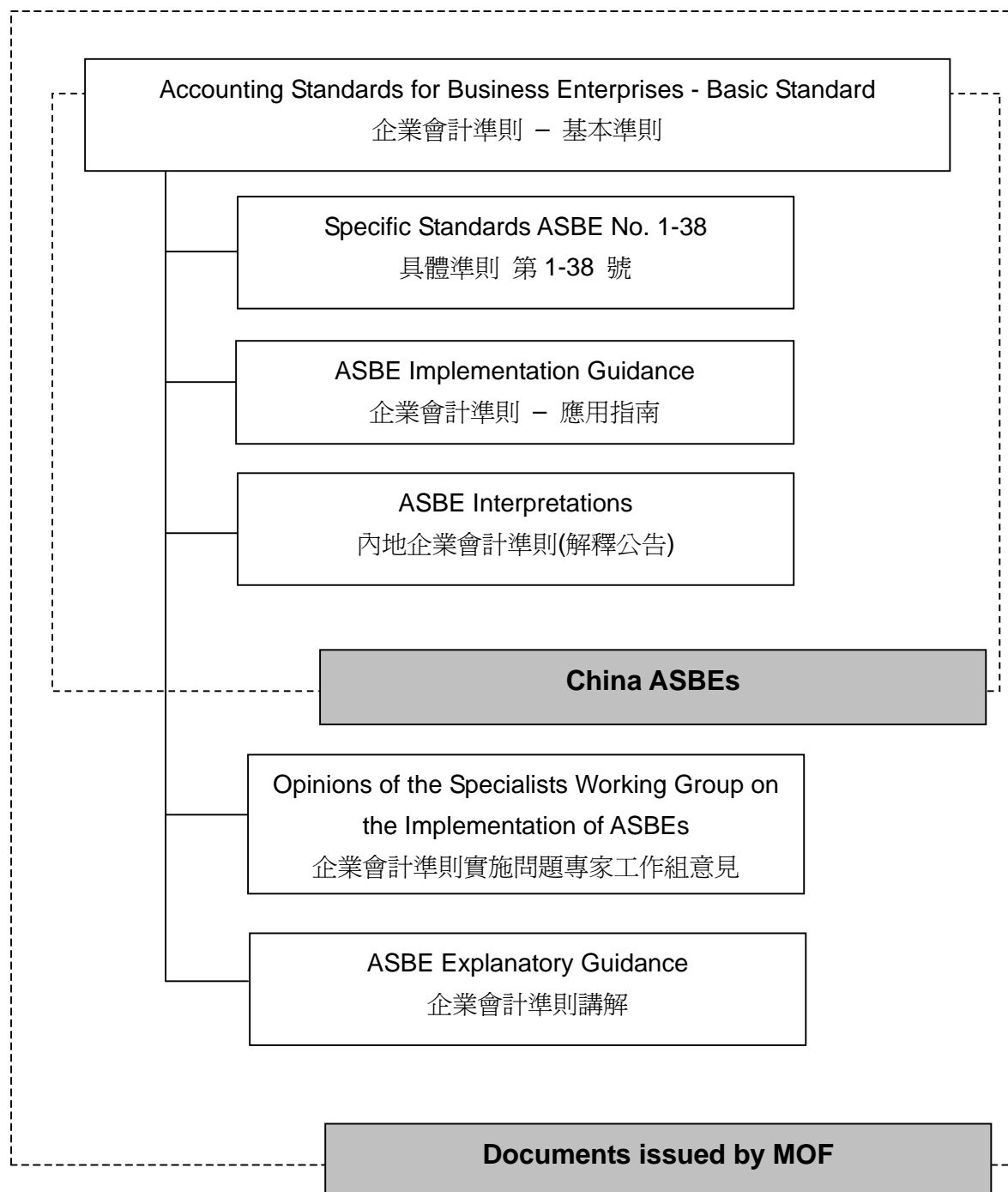
Documents compared

4. The pronouncements compared include all the official mandatory standards and interpretations governing the preparation of financial statements issued by the MOF and the Hong Kong Institute of CPAs, i.e. China ASBEs and HKFRSs respectively.

China ASBEs

5. For the purpose of this comparison project, "China ASBEs" comprise:
 - a. Accounting Standards for Business Enterprises - Basic Standard;
 - b. Specific Standards ASBE No. 1-38;
 - c. ASBE Implementation Guidance; and
 - d. ASBE Interpretations.

6. The hierarchy of China ASBEs is diagrammatically represented as follows:



7. China ASBEs that are effective as at 6 December 2007 are set out in Appendix 1 to this Annex. The ASBE Basic Standard overrides all other China ASBEs. Specific Standards, ASBE Implementation Guidance and ASBE Interpretations have equal standing and, in the case of a conflict, the later pronouncement prevails.

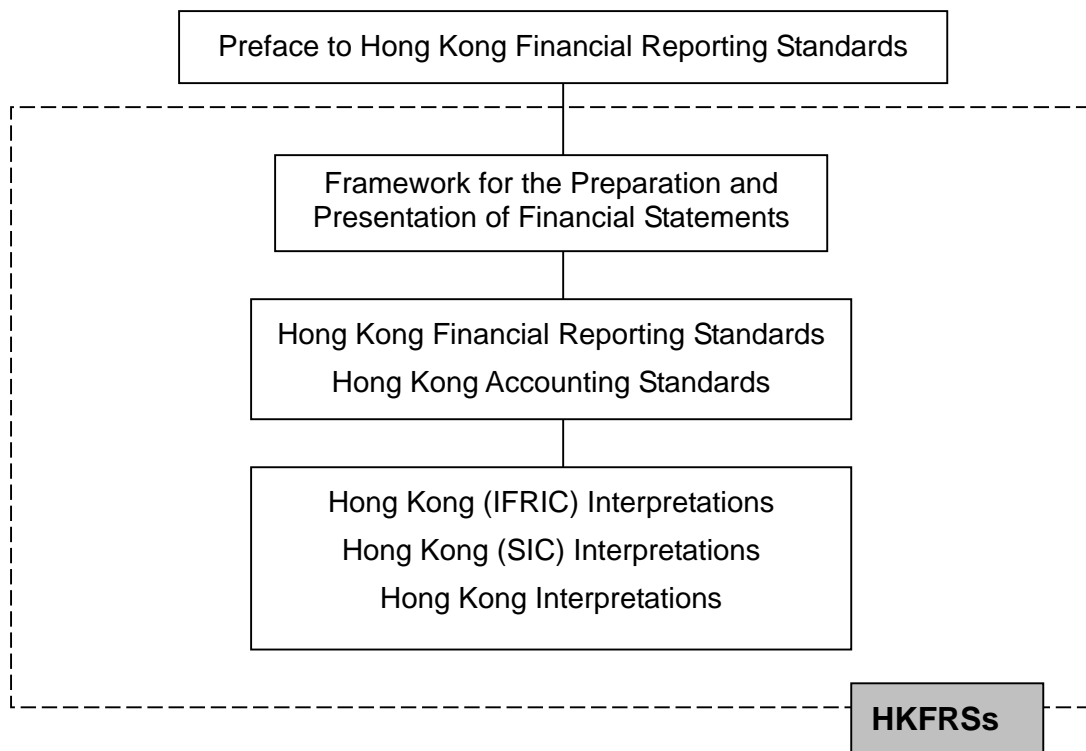
Explanatory Guidance

8. ASBE Explanatory Guidance (企業會計準則講解) was issued by the Accounting Regulatory Department of the MOF in April 2007. Because the Explanatory Guidance is not mandatory, it has not been reviewed in full as part of the comparison exercise. Supplementary ASBE Explanatory Guidance will be issued by the MOF by the end of April 2008 to supplement the volume issued in April 2007 and to address some of the differences identified in this project and, for that purpose, these have been reviewed.

HKFRSs

9. The term “HKFRSs”, as defined in the *Preface to HKFRSs*, includes all HKFRSs and Interpretations approved by the Council of the Hong Kong Institute of CPAs. HKFRSs comprise:
 - a. Framework for the Preparation and Presentation of Financial Statements;
 - b. Hong Kong Financial Reporting Standards;
 - c. Hong Kong Accounting Standards;
 - d. Hong Kong (IFRIC) Interpretations;
 - e. Hong Kong (SIC) Interpretations; and
 - f. Hong Kong Interpretations.

10. HKFRSs are fully converged word-for-word with IFRSs. The hierarchy of HKFRSs is diagrammatically represented as follows:



11. HKFRSs that are effective as at 6 December 2007 are set out in Appendix 2 to this Annex.

Implementation Guidance

12. Non-mandatory material such as Implementation Guidance and Illustrative Examples, which are included in the majority of HKFRSs are not covered under the comparison project.

The cut-off date for the comparison

13. The pronouncements that have been compared include all the relevant pronouncements effective on 6 December 2007.
14. Comparison of relevant pronouncements that become effective subsequent to 6 December 2007 is dealt with in Annex II to the Joint Declaration – Mechanism for ongoing elimination of reconciliation differences and maintenance of convergence. Pronouncements that are issued before, but are not yet effective as at, 6 December 2006 are available on the website of the Hong Kong Institute of CPAs [<http://www.hkicpa.org.hk>].

III. The comparison process

The approach

15. The approach taken was an outcome-based comparison, being the identification of the differences between China ASBEs and HKFRSs and evaluation of whether the differences will result in preparers recognising and measuring material items in the financial statements in a different way. Given the different situations of the two suites of standards, HKFRSs were taken as the benchmark and compared with China ASBEs. It was not practical to identify minor textual differences. In undertaking this comparison,
- a. elimination of an option that is at the discretion of the preparer was not considered a difference;
 - b. HKFRS 1 *First-time Adoption of HKFRSs* and ASBE 38 *First-time Adoption of ASBEs* were developed for the purpose of transition from old standards to new standards and the impact on financial statements depends on the specific circumstances of each enterprise. We therefore excluded these standards from the comparison project; and
 - c. HKAS 26 *Accounting and Reporting by Retirement Benefit Plans* and ASBE 10 *Enterprise Pension Funds* were not compared because pension funds are not listed.

Identifying the differences

16. The Hong Kong Institute of CPAs reviewed the requirements set out in all the relevant HKFRSs, traced the requirements to China ASBEs and decided whether the HKFRSs requirements are:
- a. addressed by China ASBEs;
 - b. omitted from China ASBEs; or
 - c. different from China ASBEs.

Eliminating the differences

17. The comparison exercise revealed certain differences between HKFRSs and China ASBEs, as a result of requirements omitted from China ASBEs. The MOF has taken active steps to reduce the differences. As at the date of signing the Joint Declaration, differences have been eliminated by:
- a. issuing ASBE Interpretations; and
 - b. agreeing Supplementary Explanatory Guidance to be published by the end of April 2008.

18. Certain differences were found to be addressed in the ASBE Explanatory Guidance. In accepting the Explanatory Guidance as equivalent in standing to the mandatory standards and guidance, reliance is placed on the preamble to the Explanatory Guidance which notes that, in the case of any conflict between a China ASBE and the Explanatory Guidance, the requirement in the Standard prevails.
19. The Hong Kong Institute of CPAs is of the view that ASBE 5 *Biological Assets* complies with HKAS 41 *Agriculture* during the life of the biological asset where there is an active market, but the use of fair value in ASBE 5 is more restrictive than the use of fair value in HKAS 41 where an entity cannot obtain market data. The Hong Kong Institute of CPAs accepts the view that fair value cannot be reliably obtained in the Mainland through the use of models and agreed not to include this as a reconciliation difference.

IV. Finalisation of the results of the comparison

20. The results of the comparison are presented as a Joint Declaration between the MOF and the Hong Kong Institute of CPAs, supported by:
 - a. Elaboration by the Hong Kong Institute of Certified Public Accountants on the background to the comparison project and the comparison process (this Annex to the Joint Declaration); and
 - b. Mechanism for ongoing monitoring elimination of reconciliation differences and maintenance of convergence (Annex II to the Joint Declaration).
21. Developments subsequent to the date of signing the Joint Declaration between the MOF and the Hong Kong Institute of CPAs will be posted on the website of the Hong Kong Institute of CPAs at: <http://www.hkicpa.org.hk>.

6 December 2007