

SSAP 10
STATEMENT OF STANDARD ACCOUNTING PRACTICE 10
ACCOUNTING FOR INVESTMENTS IN ASSOCIATES

(Issued January 1985; Revised July 1991, February 1999 and May 2001)

*The standards, which have been set in **bold italic type**, should be read in the context of the background material and implementation guidance and in the context of the Foreword to Statements of Standard Accounting Practice, Interpretations, and Accounting Guidelines. Statements of Standard Accounting Practice are not intended to apply to immaterial items (see paragraph 8 of the Foreword).*

Scope

1. *This Statement should be applied in accounting by an investor for investments in associates.*

Definitions

2. *The following terms are used in this Statement with the meanings specified:*

An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture (as defined in SSAP 21 "Accounting for interests in joint ventures") of the investor.

Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

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

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

The equity method is a method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The income statement reflects the investor's share of the results of operations of the investee.

The cost method is a method of accounting whereby the investment is recorded at cost. The income statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

Significant influence

3. If an investor holds, directly or indirectly through subsidiaries, 20% or more of the voting power of the investee, it is presumed that the investor does have significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly through subsidiaries, less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
4. The existence of significant influence by an investor is usually evidenced in one or more of the following ways:
 - a. representation on the board of directors or equivalent governing body of the investee;
 - b. participation in policy making processes;
 - c. material transactions between the investor and the investee;
 - d. interchange of managerial personnel; or
 - e. provision of essential technical information.

Equity method

5. Under the equity method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of the profits or losses of the investee after the date of acquisition. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for alterations in the investor's proportionate interest in the investee arising from changes in the investee's equity that have not been included in the income statement. Such changes include those arising from the revaluation of property, plant, equipment and investments, from foreign exchange translation differences and from the adjustment of differences arising on business combinations.

Cost method

6. Under the cost method, an investor records its investment in the investee at cost. The investor recognises income only to the extent that it receives distributions from the accumulated net profits of the investee arising subsequent to the date of acquisition by the investor. Distributions received in excess of such profits are considered a recovery of investment and are recorded as a reduction of the cost of the investment.

Consolidated financial statements

7. *An investment in an associate should be accounted for in consolidated financial statements under the equity method except when:*
 - a. *the investment is acquired and held exclusively with a view to its subsequent disposal in the near future; or*
 - b. *it operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor,*

in which case it should be accounted for as an investment other than a held-to-maturity security in accordance with SSAP 24 "Accounting for investments in securities".

8. The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear little relationship to the performance of the associate. As the investor has significant influence over the associate, the investor has a measure of responsibility for the associate's performance and, as a result, the return on its investment. The investor accounts for this stewardship by extending the scope of its consolidated financial statements to include its share of results of such an associate and so provides an analysis of earnings and investment from which more useful ratios can be calculated. As a result, the application of the equity method provides more informative reporting of the net assets and net income of the investor.
9. To classify an investment as having been acquired and held exclusively with a view to its subsequent disposal in the near future, the investor should expect that disposal will take place within one year of the date of acquisition. If the disposal has not been achieved by the end of the first annual accounting period commencing after the acquisition, the treatment may be continued only if the investor has identified or is continuing to actively seek a purchaser and the extended period can be justified on the basis of the particular circumstances of the investment and the prevailing economic environment. In such a case, the disclosure of the reasons for not accounting for an associate using the equity method under the requirement of paragraph 38(c) of this Statement would normally include the disclosure of the particular circumstances and the company's plan in respect of the associate.
10. *An investor should discontinue the use of the equity method from the date that:*
- a. *it ceases to have significant influence in an associate but retains, either in whole or in part, its investment; or*
 - b. *the use of the equity method is no longer appropriate because the associate operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor.*

The carrying amount of the investment at that date should be regarded as cost thereafter, and it should be accounted for as an investment other than a held-to-maturity security in accordance with SSAP 24 "Accounting for investments in securities".

Separate financial statements of the investor

11. *Subject to paragraph 13, an investment in an associate that is included in the separate financial statements of an investor should be either:*
- a. *accounted for using the cost method; or*
 - b. *accounted for as an investment other than a held-to-maturity security in accordance with SSAP 24 "Accounting for investments in securities".*
12. The preparation of consolidated financial statements does not, in itself, obviate the need for separate financial statements for an investor.
13. *When:*
- a. *an investment in an associate is acquired and held exclusively with a view to its subsequent disposal in the near future; or*
 - b. *an associate, in which an investment is held, operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor,*
- the investment in the associate should be accounted for in the separate financial statements of the investor as an investment other than a held-to-maturity security in accordance with SSAP 24 "Accounting for investments in securities".*

Application of the equity method

14. Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures set out in SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries". Furthermore, the broad concepts underlying the consolidation procedures used in the acquisition of a subsidiary are adopted on the acquisition of an investment in an associate.
15. An investment in an associate is accounted for under the equity method from the date on which it falls within the definition of an associate. On acquisition of the investment any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is accounted for in accordance with SSAP 30 "Business combinations". Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account for:
 - a. depreciation of the depreciable assets based on their fair values, and the effects of other differences, if any, between the investor's share of fair values at acquisition and the associate's carrying amounts; and
 - b. amortisation of the difference between the cost of the investment and the investor's share of the fair values of the net identifiable assets (goodwill).
16. The most recent available financial statements of the associate are used by the investor in applying the equity method; they are usually drawn up to the same date as the financial statements of the investor. When the reporting dates of the investor and the associate are different, the associate often prepares, for the use of the investor, statements as at the same date as the financial statements of the investor. When it is impracticable to do this, financial statements drawn up to a different reporting date may be used. The consistency principle dictates that the length of the reporting periods, and any difference in the reporting dates, are consistent from period to period. In the case of associates which are listed on a recognised stock exchange, only published financial information should be disclosed in the financial statements of the investor.
17. When financial statements with a different reporting date are used, adjustments are made for the effects of any significant events or transactions between the investor and the associate that occur between the date of the associate's financial statements and the date of the investor's financial statements.
18. The investor's financial statements are usually prepared using uniform accounting policies for like transactions and events in similar circumstances. In many cases, if an associate uses accounting policies other than those adopted by the investor for like transactions and events in similar circumstances, appropriate adjustments are made to the associate's financial statements when they are used by the investor in applying the equity method. If it is not practicable for such adjustments to be calculated, that fact is generally disclosed.
19. If an associate has outstanding cumulative preferred shares, held by outside interests, the investor computes its share of profits or losses after adjusting for the preferred dividends, whether or not the dividends have been declared.
20. If, under the equity method, an investor's share of losses of an associate equals or exceeds the carrying amount of an investment, the investor ordinarily discontinues including its share of further losses. The investment is reported at nil value. Additional losses are provided for to the extent that the investor has incurred obligations or made payments on behalf of the associate to satisfy obligations of the associate that the investor has guaranteed or otherwise committed. If the associate subsequently reports profits, the investor resumes including its share of those profits only after its share of the profits equals the share of net losses not recognised.

21. For the purpose of applying paragraph 20, the carrying amount of an investment includes only the carrying amount of instruments that provide unlimited rights of participation in earnings or losses and a residual equity interest in the investee. Financial interests that are not included in the carrying amount of the investment (such as preferred shares, debt securities, and receivables) are accounted for in accordance with SSAP 24 "Accounting for investments in securities" or other applicable Statements.
22. Continuing losses of an investee are objective evidence that financial interests in that investee, both financial interests that are included in the carrying amount of the investment and other financial interests, may be impaired (see paragraph 25). Impairment of the carrying amount of a financial interest that is included in the carrying amount of an asset is determined based on the carrying amount after any adjustment for equity method losses.
23. If the investor has guaranteed or is otherwise committed to obligations to the investee or to satisfying obligations of the investee, in addition to continuing to recognise its share of losses of the investee, the investor determines whether a provision should be recognised in accordance with SSAP 28 "Provisions, contingent liabilities and contingent assets".
24. On disposal of an investment in an associate, the difference between the proceeds from the disposal and, as of the date of disposal, the total of:
 - a. the investor's share of net assets other than goodwill;
 - b. the related unamortised goodwill; and
 - c. the related accumulated foreign currency translation difference,
 is recognised in the consolidated income statement as the profit or loss on the disposal of the investment in the associate.

Impairment losses

25. If there is an indication that an investment in an associate may be impaired, an enterprise applies SSAP 31 "Impairment of assets". In determining the value in use of the investment, an enterprise estimates:
 - a. its share of the present value of the estimated future cash flows expected to be generated by the investee as a whole, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or
 - b. the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.
 Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with SSAP 31. Therefore, it is allocated first to any remaining goodwill (see paragraph 15).
26. The recoverable amount of an investment in an associate is assessed for each individual associate, unless an individual associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the reporting enterprise.

Transactions with associates

27. *Where an associate is accounted for using the equity method in the consolidated financial statements, unrealised profits and losses resulting from upstream and downstream transactions between an investor (or its consolidated subsidiaries) and its associates should be eliminated to the extent of the investor's interest in the associate.*

28. ***Unrealised losses resulting from transactions with associates should not be eliminated to the extent that the transaction provides evidence of an impairment of the asset transferred.***
29. Upstream transactions are, for example, sales of assets from an associate to the investor or its consolidated subsidiaries. Downstream transactions are, for example, sales of assets from the investor or its consolidated subsidiaries to an associate.
30. When an investor purchases goods or assets from an associate, the investor does not recognise its share of the profits of the associate from the transaction in its consolidated financial statements until it resells the goods or assets to an independent party. An investor recognises its share of the losses resulting from these transactions in the same way as profits except that losses should be recognised immediately when they represent a reduction in the net realisable value of current assets or an impairment loss.
31. When an investor sells goods or assets to an associate, recognition of any portion of a gain or loss from the transaction should reflect the substance of the transaction. While the goods or assets are retained by the associate, and provided the investor has transferred the significant risks and rewards of ownership, the investor recognises in its consolidated financial statements only that portion of the gain that is attributable to the interests of the other shareholders of the associate. The investor recognises the full amount of any loss when the sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.
32. To assess whether a transaction between an investor (or its consolidated subsidiary) and its associate provides evidence of impairment of an asset, the investor determines the recoverable amount of the asset under SSAP 31 "Impairment of assets". In determining value in use, future cash flows from the asset are estimated based on continuing use of the asset and its ultimate disposal by the associate.

Contingencies

33. In accordance with SSAP 28 "Provisions, contingent liabilities and contingent assets", the investor discloses:
- a. its share of the contingent liabilities and capital commitments of an associate for which it is also contingently liable; and
 - b. those contingent liabilities that arise because the investor is severally liable for all the liabilities of the associate.

Disclosure

34. ***An investor should disclose the following information for each significant associate:***
- a. ***the name;***
 - b. ***the form of business structure, whether corporate or unincorporated;***
 - c. ***the principal place of operation and, for corporate associates, the place of incorporation;***
 - d. ***an indication of the nature of business;***
 - e. ***the proportion of ownership interest and, if different, the proportion of voting power held; and***
 - f. ***the profit sharing arrangement, if different from the proportion of ownership interest.***

35. *An investor should disclose the method used to account for investments in associates.*
36. *Investments in associates accounted for using the equity method should be classified as long-term investments and disclosed as a separate item in the balance sheet. The investor's share of the profits or losses of such investments should be disclosed as a separate item in the income statement. The investor's share of taxation, extraordinary items or prior period adjustments (if any) should also be separately disclosed in the financial statements.*
37. *Where the investments in one or more associates are so material that more detailed information about them would assist in giving a true and fair view, further information should be given by separate disclosure of each of such associates' current assets, long-term assets, current liabilities, long-term liabilities, contingent liabilities, income, and profits or losses.*
38. *An investor should disclose in its consolidated financial statements the following matters in respect of its investments in associates:*
- a. *the aggregate amount of profits retained by associates included in the group's retained profits; where there are significant restrictions on the ability of the associates to distribute their profits (other than those shown as non-distributable), the investor should also disclose the aggregate amount of retained profits so affected and a description of the nature of restrictions;*
 - b. *if financial statements of the associates not coterminous with those of the investor are used in applying the equity method, the names of those associates and their financial period end dates; and*
 - c. *the reasons for not accounting for an associate using the equity method, the accounting policy used and the name of the associate excluded.*
39. *An investor (other than a wholly-owned subsidiary of another company) which does not present consolidated financial statements, because it does not have subsidiaries or for any other reasons, should disclose the aggregate amounts of its share of the net assets and results of the associates as if the equity method had been applied, as supplementary information in the notes to its separate financial statements.*
40. *An investor that has investments in associates may not issue consolidated financial statements because it does not have subsidiaries. It is appropriate that such an investor provides the same information about its investments in associates as those enterprises that issue consolidated financial statements.*

Effective date

41. *The accounting practices set out in this Statement should be regarded as standard in respect of financial statements relating to periods beginning on or after 1 January 2001. Earlier adoption is encouraged but not required. If an enterprise applies this Statement for financial statements covering periods beginning before 1 January 2001, the enterprise should:*
- a. *disclose that fact; and*
 - b. *adopt SSAP 28 "Provisions, contingent liabilities and contingent assets", SSAP 30 "Business combinations", SSAP 31 "Impairment of assets" and SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries" at the same time.*

Notes on legal requirements in Hong Kong

42. The references to "the Schedule" below are to the Tenth Schedule to the Companies Ordinance.
43. 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 section 129(4) of the Companies Ordinance:
 - a. the name of that other company;
 - b. its country of incorporation; and
 - c. the description and proportion of the classes of shares held.
44. 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.
45. Paragraph 9(1) of the Schedule requires separate disclosure of the aggregate amounts respectively of listed investments and unlisted investments.
46. 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.
47. 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.
48. 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.
49. Paragraph 13(1)(g) of the Schedule requires disclosure of the amounts respectively of income from listed investments and income from unlisted investments.
50. The provisions of the Schedule apply to all companies other than banking and insurance companies which are entitled to certain disclosure exemptions under the provisions of Part III of the Schedule.

Compliance with International Accounting Standards

51. International Accounting Standard IAS 28 "Accounting for investments in associates" places an investment in an associate that operates under severe long-term restrictions which significantly impair its ability to transfer funds to the investor under IAS 39 "Financial Instruments: Recognition and measurement" and will generally be measured at fair value. However, this Statement places such an investment under SSAP 24 "Accounting for investments in securities". Under the benchmark treatment in SSAP 24, if the investment is classified as an investment security, it will be measured at cost. Except for this difference, compliance with this Statement ensures compliance, in all material respects, with IAS 28.

Appendix

Changes from International Accounting Standard 28 "Accounting for investments in associates"

The purpose of this appendix is to summarise the major changes made to the equivalent International Accounting Standard when adopting it in Hong Kong and the reasons for such changes. It does not form part of the standards and should be read in the context of the full text of the Statement.

Changes	Reasons for the Changes
<p>(i) <u>SSAP 10 Para 9</u></p> <p>Additional guidance on paragraph 7 as regards an interest in an associate that is acquired and held exclusively with a view to its subsequent disposal in the near future ("a temporary associate") is added.</p>	<p>To provide additional guidance. This guidance is consistent with that included in SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries" (para. 24) and SSAP 21 "Accounting for interests in joint ventures" (para. 30).</p>
<p>(ii) <u>SSAP 10 Paras 11 to 13 vs IAS 28 Paras 12 to 14</u></p> <p>(a) The IAS option to account for an investment in an associate using the equity method in the separate financial statements of an investor is removed.</p> <p>(b) This Statement specifies a treatment for an investment in a temporary associate and for an investment in an associate that operates under severe long term restrictions in the separate financial statements of the investor.</p>	<p>(a) This Statement takes the view that the inclusion of undistributed profits of other companies would ignore the separate legal status of the entities concerned and, as regards the investor, be contrary to the practice of not taking credit for investment income until it is received or receivable.</p> <p>(b) This Statement takes the view that the treatment of such an investment in the separate financial statements of the investor should be consistent with that for a subsidiary under SSAP 32 and a jointly controlled entity under SSAP 21 in the same circumstances.</p>
<p>(iii) <u>SSAP 10 Para 15 and IAS 28 Para 17</u></p> <p>The following wording is added to paragraph 15 (a) of this Statement:</p> <p>"... and the effects of other differences, if any, between the investor's share of fair values at acquisition and the associate's carrying amounts..."</p>	<p>To provide additional guidance.</p>

<p>(iv) <u>SSAP 10 Para 16 and IAS 28 Para 18</u></p> <p>The following sentence is added to paragraph 16 of this Statement:</p> <p>"In the case of associates which are listed on a recognised stock exchange, only published financial information should be disclosed in the financial statements of the investor."</p>	<p>To provide additional guidance.</p>
<p>(v) <u>IAS 28 Para 25</u></p> <p>This Statement does not give guidance on income taxes arising from investments in associates similar to that included in IAS 28 by cross-reference to IAS 12 "Income taxes".</p>	<p>There is currently no SSAP equivalent to IAS 12 as far as income taxes arising from investments in associates are concerned.</p>
<p>(vi) <u>SSAP 10 Paras 21 to 23 and 27 to 32</u></p> <p>The provisions of SIC 20 "Equity accounting method - recognition of losses" and SIC 3 "Elimination of unrealised profits and losses on transactions with associates" issued by the IASC's Standing Interpretations Committee are incorporated in this Statement.</p>	
<p>(vii) <u>SSAP 10 Para 24</u></p> <p>A paragraph giving guidance on the calculation of the profit or loss on disposal of an associate is added.</p>	<p>To provide additional guidance. This guidance is consistent with that included in SSAP 32 as regards the calculation of the profit or loss on disposal of a subsidiary.</p>

<p>(viii) <u>SSAP 10 Paras 34 to 40 and IAS 28 Paras 27 and 28</u></p> <p>Disclosure requirements as regards:</p> <ul style="list-style-type: none"> (a) each significant associate (see paragraph 34); (b) investments in one or more associates which are very material (see paragraph 37); (c) the aggregate amount of profits retained and the restrictions on the ability to distribute the retained profits (see paragraph 38(a)); (d) an associate with a different accounting date (see paragraph 38(b)); and (e) an associate not accounted for using the equity method (see paragraph 38(c)), <p>are added to this Statement to replace paragraphs 27 and 28 of IAS 28.</p>	<p>In view of the significant amount of business conducted through associates in Hong Kong, additional disclosures are considered necessary. These disclosure requirements are in line with those for an interest in a jointly controlled entity under SSAP 21.</p>
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