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China Boardroom Briefing

Comparison of the New Chinese Accounting Standards with Current PRC GAAP

— Special Edition on the New Chinese Accounting Standards, No. 2

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China Boardroom Briefings are prepared by Ernst & Young China Technical Department, targeted specifically at members of the Board of Directors and senior management of PRC listed companies and foreign investment enterprises.

This Briefing is also of relevance to others within your Company involved in the areas of accounting, finance and other financial reporting disclosures.

Future matters of particular relevance will be communicated as they arise. Our client service teams welcome the opportunity to discuss the issues raised and to respond to your needs.



Comparison of the New Chinese Accounting Standards with Current PRC GAAP – Special Edition on the New Chinese Accounting Standards, No. 2

Conversion to the New Chinese Accounting Standards might be one of the important tasks that listed companies and other entities, which will adopt the New Chinese Accounting Standards from 1 January 2007, have to deal with in the coming future. Some entities have already begun the conversion process while others might be preparing to start their conversion. What does the adoption of New Chinese Accounting Standards mean? What are the significant differences between the New Chinese Accounting Standards and current PRC GAAP?

In February 2006, the Ministry of Finance of the People's Republic of China (the "MOF") issued the Accounting Standards for Business Enterprises (the "New Chinese Accounting Standards"), which consist of a basic standard and 38 specific accounting standards. Recently, the MOF also promulgated the Implementation Guidance on Accounting Standards for Business Enterprises (the "Implementation Guidance"), which provides further interpretation on the specific accounting standards and gives application guidance on the major accounting treatments and related accounts for respective specific accounting standards. As an important component of the new system of the Chinese Accounting Standards, the Implementation Guidance provides further guidance for listed companies and other entities adopting the New Chinese Accounting Standards from 1 January 2007.

In the first issue of Ernst & Young China Boardroom Briefing "New Standards, New Era – Special Edition on the New Chinese Accounting Standards, No. 1", we introduced the main contents of the New Chinese Accounting Standards, discussed key features, expected impacts, and provided some recommendations. In this special edition, we provide further analysis in terms of issues that entities should be aware of when implementing the New Chinese Accounting Standards, and also explore the differences between the New Chinese Accounting Standards and current PRC GAAP.

Adoption of the New Chinese Accounting Standards means competitive advantage

Adopting the New Chinese Accounting Standards is more than changing from one set of accounting principles to another or just a technical conversion process. There are a number of significantly different recognition, measurement and disclosure requirements that will result in material financial reporting differences.

This process allows management to challenge the way in which their entity is viewed and evaluated by investors, other stakeholders, and competitors. Every important operating decision that an entity makes could be affected

by the New Chinese Accounting Standards, and it is essential that management are able to anticipate the effects of adoption and changes in market perception.

The adoption of the New Chinese Accounting Standards can also present an entity with the opportunities to:

- Re-shape internal management reporting systems to manage financial accounting and financial statement generation effectively within the new regime, and to provide essential management information
- Improve the metrics that evaluate the entity and executive performance
- Enhance and improve communication of the entity's operating results and financial position together with other performance indicators, to market analysts, investors, and other stakeholders
- Obtain a broader and deeper understanding of the entity's relative standing by benchmarking against its global peer group after the New Chinese Accounting Standards have converged with IFRS
- Potentially reduce the entity's cost of capital



Increased volatility in results and net assets

A number of the New Chinese Accounting Standards require the use of fair values and such measurement will lead to increased volatility in results. An entity's profit will fluctuate with changes in the market values of investment properties and Financial instruments.

Key performance indicators

Adoption of the New Chinese Accounting Standards may result in changes of an entity's key performance indicators, for example, net profit, net assets, earnings per share, return on net assets, current ratio and debt ratio. Reported profits may be different from perceived commercial performance, management need to understand the changes in the way an entity's performance will be perceived, both internally and externally in the marketplace.

Investor relations

Entities should actively communicate the potential impact of the New Chinese Accounting Standards to investors and market analysts as early as possible. For example, if after adopting the New Chinese Accounting Standards, an entity's profit varies significantly from its previous year's profit or the market's expectation, the reasons why this has occurred should be explained to investors.

Dividend policy

Any change in an entity's net profit will affect the entity's ability to distribute cash dividends. Some of the new requirements contained in the New Chinese Accounting Standards may reduce the entity's distributable profit, thereby requiring the entity to reconsider its current dividend policy. It should be noted that the New Chinese Accounting Standards require application of the cost method instead of the equity method in accounting for a parent company's investment in its subsidiary. Therefore, the holding company should consider whether the subsidiary's profit can be remitted on a timely basis in order to ensure that the parent has the ability to distribute cash dividends.

Loan covenants

Loan covenants based on financial ratios may need to be revised upon the adoption of the New Chinese Accounting Standards. Entities may no longer satisfy the relevant loan covenants, which could result in uncertainty in the availability of financing. Entities should review these loan covenants and discuss, when necessary, any revisions of these covenants with the bank on a timely basis.

Changes in stock prices and credit ratings

Changes in an entity's performance and fluctuations in profit can influence the stock prices of listed companies, and could cause changes to their credit rating.



Impact of
New Chinese
Accounting
Standards
on Earnings

Risk management and hedging strategies

The New Chinese Accounting Standards require disclosure of financial risk management policies. It might also be necessary for an entity to consider whether the current hedges and documentation is prepared in accordance with the hedge accounting requirements of the New Chinese Accounting Standards.

Valuation model

There are circumstances when fair value is not readily available and it may be necessary for entities to select an appropriate valuation model to calculate fair value. This would be applicable when considering impairment of assets, financial instruments, business combinations and share-based payments. Entities may require the services of a professional valuer.

Internal control policies and procedures

Internal control systems may need to be modified and improved to embrace changes introduced by the new standards, for instance, to establish internal controls to monitor transactions of derivative financial instruments. It is important to note that, these changes not only affect day-to-day transactions, but also influence important accounting estimates made by entities. For example, the new standard "Impairment of Assets" provides a more detailed and comprehensive guidance on determining whether an asset has been impaired, whereas some other new standards require fair value measurement. Accordingly, entities may need to revise their internal control systems to accommodate these new changes.

Employee incentive plans

The New Chinese Accounting Standards will probably result in changes in an entity's key performance indicators, which requires reconsideration of assessment criteria used to evaluate executives' and employees' performance. For example, when determining the performance assessment criteria for executives and employees, should the fluctuation of the market prices of assets be considered? Furthermore, entities should consider the potential effect of the standard "Share-based Payment" on their results.

Merger & acquisition (M&A) plans and terms of transaction contracts

Will future M&As have a significant impact on an entity's performance? An entity should consider and evaluate the impact of any M&As in advance. In addition, when signing transaction contracts, an entity may need to consider the impact of contract terms on its financial statements. For example, according to the terms of the investment contract, is the investee company subject to control, joint control, or significant influence?

Information and financial systems

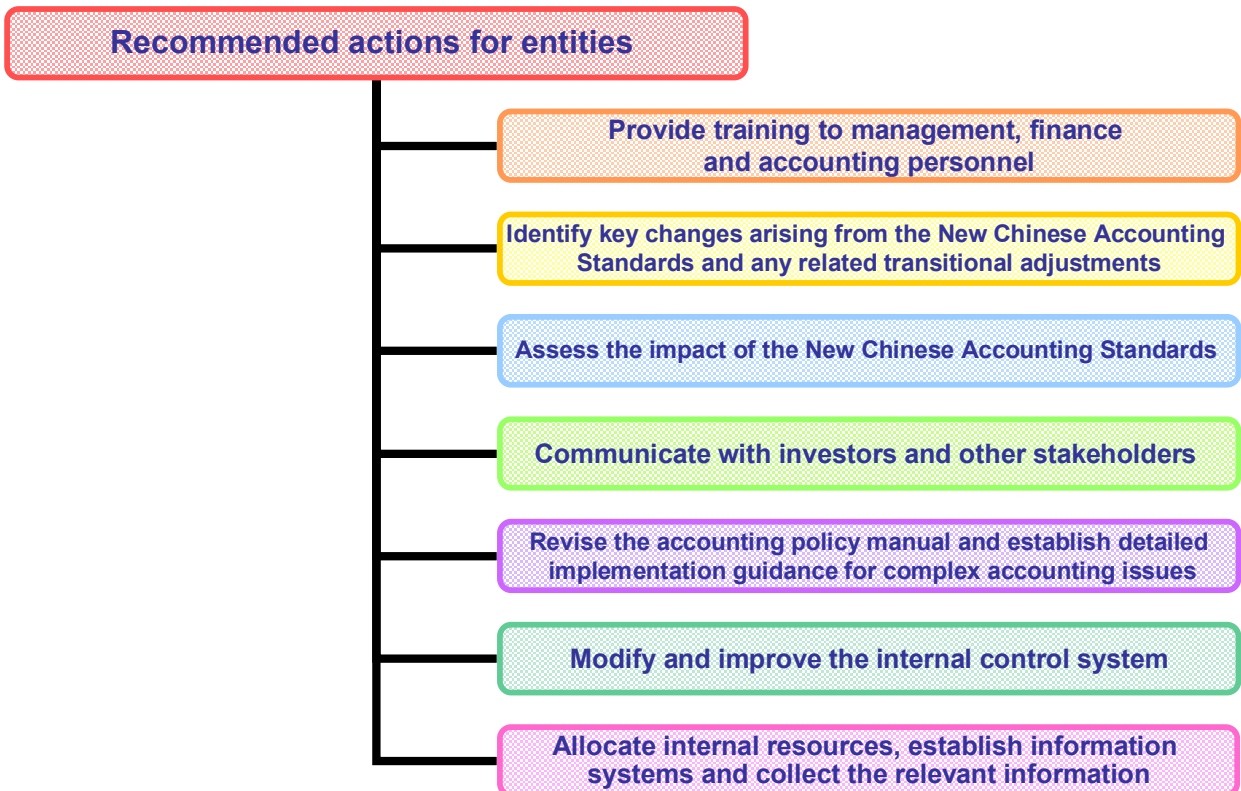
It might be necessary to modify information and financial systems to collect data to meet the requirements of the New Chinese Accounting Standards.

Undoubtedly, the accounting and financial reporting functions will bear the heaviest burden in an entity as a result of adopting the New Chinese Accounting Standards. However, it is important for an entity to consider the impact of the new standards on other areas of the business as well, such as risk management and operating strategies.

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Implementation of the New Chinese Accounting Standards is a systematic project across the entity

In “New Standards, New Era – Special Edition on the New Chinese Accounting Standards, No.1”, we suggested that entities should familiarise themselves with the requirements of the New Chinese Accounting Standards as early as possible to allow entities to plan in advance. Recommended actions for entities include:



Implementation of the New Chinese Accounting Standards may involve not only the accounting and finance department, but also key management, the IT department, the production and R&D department, the sales and purchase department, and the HR department. For example, much of the information required by the New Chinese Accounting Standards will be collected by the information systems. Application of the component depreciation method for fixed assets will probably require persons in charge of production, and purchase and maintenance of fixed assets to provide the accounting department with the appropriate information. Capitalisation of development expenditure under certain conditions may require input from the R&D department. Therefore, adopting the New Chinese Accounting Standards needs to be implemented systematically across the entity.

Comparison of the New Chinese Accounting Standards with current PRC GAAP

During the implementation of the New Chinese Accounting Standards, it is imperative that an entity identifies the differences between the New Chinese Accounting Standards and current PRC GAAP, and evaluates the impact of the New Chinese Accounting Standards.

Generally from the financial accounting and reporting perspective key changes arising from the New Chinese Accounting Standards compared with current PRC GAAP include:

- In the separate financial statements of a parent company, its investment in subsidiaries is accounted for using the cost method instead of the existing equity method
 - Investment properties should be accounted for and presented as a separate line item. When there is sound evidence indicating that the fair value of investment property can be obtained reliably on a continuing basis, the fair value model can be adopted, and changes in fair value should be accounted for in the current period of the income statement
 - Expenditures incurred during the development phase of intangible assets should be capitalised when specific criteria are met
 - Where exchanges of non-monetary assets are of commercial substance, they should be measured at fair value, any gains or losses arising from such exchanges should be recognised in the income statement
 - For long-term assets such as fixed assets and intangible assets, impairment losses cannot be reversed in future accounting periods
 - Share-based payments (e.g., shares, options, or share appreciation rights granted to employees) granted by an entity in exchange for employee services are measured at fair value and recognised in the income statement
 - The new standard on debt restructurings introduces the fair value measurement basis and requires gains arising from such transactions to be credited to the income statement of the current period
 - Borrowing costs incurred for general borrowings should also be capitalised when certain criteria are met
 - The balance sheet liability method is adopted when accounting for deferred tax of temporary differences. The tax payable method is prohibited
 - For business combinations involving entities under common control, in principle, the “pooling of interests” method is adopted. The net assets of the entity acquired in a combination should be measured at their original carrying amount. No goodwill is recognised and the difference is adjusted against equity
 - For business combinations not under common control, the purchase method is applied in principle. The identifiable net assets of the acquired entity should be measured at fair value. Goodwill is not amortised, but subject to impairment tests at least annually. Any excess of the acquirer’s interest in the net fair value of acquiree’s identifiable net assets over cost should be recognised in the current period of the income statement
 - Financial assets and financial liabilities are classified into new categories, which dictate the differing accounting treatments. Certain categories, such as investments held for trading require fair value measurement
 - Derivative financial instruments are recognised in the balance sheet and are measured at fair value, changes in fair value generally recognised in the income statement
 - In preparing consolidated financial statements, the parent company should use “control” as the basis to determine the scope of consolidation and must consolidate all subsidiaries
 - Joint ventures are no longer required to be consolidated proportionately; instead, the equity method is required to be used when accounting for their investments
- Part 2 of this special edition will set out in table format a detailed comparison of the New Chinese Accounting Standards and current PRC GAAP. This enables entities to identify any significant changes arising from the New Chinese Accounting Standards for their business and the anticipated impacts.*

Comparison with International Financial Reporting Standards

The New Chinese Accounting Standards, to a large extent, represent a convergence with International Financial Reporting Standards (“IFRS”). However, there are acknowledged exceptions in certain areas given the unique circumstances in China. Exceptions mainly include:

- The New Chinese Accounting Standards state that the impairment of long-term assets such as fixed assets and intangible assets is not permitted to be reversed in future accounting periods
- The New Chinese Accounting Standards state clearly that state-controlled entities should not be regarded as related parties simply because they are subject to common control by the state
- For investment properties, the New Chinese Accounting Standards specify that the fair value model can be adopted only when there is sound evidence indicating that the fair value of the investment properties can be achieved reliably on a continuing basis
- For business combinations involving entities under common control, the New Chinese Accounting Standards require the adoption of the pooling of interests method



Furthermore, while IFRS allows the adoption of alternative treatments, the New Chinese Accounting Standards generally prohibit alternatives. These mainly include:

- Fixed assets and intangible assets: IFRS allows the adoption of the revaluation model when certain criteria are met. But the New Chinese Accounting Standards only permit the cost model
- Borrowing costs: under IFRS, the benchmark accounting treatment is to charge all the borrowing costs to the income statement of the current period, and capitalisation is the allowed alternative treatment. However, the new Chinese standard requires capitalisation of the borrowing costs
- Joint ventures: under IFRS, interests in jointly-controlled entities can be consolidated either proportionately or using the equity method. Conversely, the New Chinese Accounting Standards require the application of the equity method

The comparison table in Part 2 of this special edition compares the New Chinese Accounting Standards with IFRS as well.

Future publications

This special edition is the second publication in our series on the New Chinese Accounting Standards. In future, we will provide further detailed analysis on some of the important standards or other current topical issues.

Part 2: Comparison of the New Chinese Accounting Standards with current PRC GAAP and IFRS

The following table provides a detailed comparison of the New Chinese Accounting Standards with current PRC GAAP. The new standards include not only the “Accounting Standards for Business Enterprises”, comprising a basic standard and 38 specific standards, but also the relevant provisions of the “Implementation Guidance on Accounting Standards for Business Enterprises” issued by the MOF. The current PRC GAAP, which is mainly targeted at entities that have already adopted the “Accounting System for Business Enterprises” such as joint stock limited companies and foreign invested enterprises, generally consists of the existing “Accounting Standards for Business Enterprises” (including the basic standard and 16 specific accounting standards) and the “Accounting System for Business Enterprises”, unless otherwise specified. Under certain circumstances, the “Accounting System for Financial Enterprises” and other existing commonly-used accounting regulations such as “Tentative Directive on Consolidated Financial Statements” are also included, but the “Accounting System for Small Business Enterprises” and other specific accounting regulations on special entities or transactions are excluded. In addition, the following table focuses on the significant changes in accounting treatment, it does not cover disclosure requirements.

The New Chinese Accounting Standards, to a large extent, represent a convergence to IFRS, but a few exceptions are acknowledged in certain areas arising from considerations given to some specific and unique situations in China. Accordingly, the following table will compare the New Chinese Accounting Standards with the currently issued IFRS (listed by individual IFRS/IAS) on issue at November 2006.

Part 2: Comparison of the New Chinese Accounting Standards with current PRC GAAP and IFRS (Continued)

No.	Accounting Standards for Business Enterprises (ASBE)	Page	No.	Accounting Standards for Business Enterprises (ASBE)	Page
	ASBE – Basic Standard	9	22.	Recognition and Measurement of Financial Instruments	31
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6.	Intangible Assets	14	28.	Changes in Accounting Policies and Estimates, and Correction of Errors	37
7.	Exchange of Non-monetary Assets	17	29.	Events after the Balance Sheet Date	37
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10.	Enterprise Annuity Fund	20	32.	Interim Financial Reporting	39
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12.	Debt Restructurings	22	34.	Earnings per Share	40
13.	Contingencies	23	35.	Segment Reporting	41
14.	Revenue	23	36.	Related Party Disclosures	41
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16.	Government Grants	24	38.	First Time Adoption of Accounting Standards for Business Enterprises	43
17.	Borrowing Costs	25		Existing IFRS that are not addressed by the New Chinese Accounting Standards	44
18.	Income Taxes	26			
19.	Foreign Currency Translation	27			
20.	Business Combinations	28			
21.	Leases	29			

ASBE – Basic Standard		
Item	Current PRC GAAP	New Chinese Accounting Standards
General principles for measurement	<ul style="list-style-type: none"> • Generally measured at actual cost • If impairment is identified, a provision for impairment should be made 	<ul style="list-style-type: none"> • Generally measured at historical cost, if an alternative measurement basis is elected (such as replacement cost, net realisable value, present value or fair value), entities must ensure that relevant information can be obtained and measured reliably • Introduces the requirement of fair value measurement

ASBE 1 - Inventories		
Item	Current PRC GAAP	New Chinese Accounting Standards
Measurement of cost of inventories sold/used	The last-in-first-out method is permitted	The last-in-first-out method is no longer permitted
Purchase expenses of commodity distribution enterprises	Not included in the cost of inventories, charged directly to the income statement in the current period	This specific provision has been withdrawn, attributable purchase expenses are now included in the cost of inventories
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 2 Inventories	No significant differences	

ASBE 2 – Long term Equity Investments		
Item	Current PRC GAAP	New Chinese Accounting Standards
Scope	<ul style="list-style-type: none"> • The original standard is titled “Investments”, including short term investments and long term investments • Long term investments can be further classified into: <ul style="list-style-type: none"> – Long term equity investments <ul style="list-style-type: none"> ▪ Subsidiaries (control) ▪ Joint ventures (joint control) ▪ Associates (significant influence) ▪ Other long term equity investments (without control, joint control, or significant influence) – Long term debt investments 	<ul style="list-style-type: none"> • Explains accounting treatments for the following long term equity investments <ul style="list-style-type: none"> – Subsidiaries (control) – Joint ventures (joint control) – Associates (significant influence) – Other long term equity investments with no quoted market price in active markets and whose fair value cannot be measured reliably • Other investments are accounted for in accordance with the standard “Recognition and Measurement of Financial Instruments”

ASBE 2 – Long term Equity Investments (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Initial measurement (recognition of the initial cost of investment)	Generally measured at cost	<ul style="list-style-type: none"> • Long term equity investments resulting from business combinations should be measured in accordance with the “Business Combinations” standard <ul style="list-style-type: none"> – For business combinations involving entities under <u>common control</u>, the initial cost of investment should be recorded at the acquirer’s share of the carrying value of the acquiree’s owners’ equity at the combination date. The difference between the initial cost of investment and the carrying value of the combination consideration (or total of the par value of shares issued) should be adjusted to capital surplus or retained earnings as appropriate – For business combinations involving entities <u>not under common control</u>, the initial cost of investment should be recorded at the combination cost determined in accordance with the standard on “Business Combinations” at the acquisition date • Other long term equity investments are generally measured at the fair value of the consideration paid
Subsequent measurement	<ul style="list-style-type: none"> • Long term equity investments <ul style="list-style-type: none"> – Subsidiaries: equity method – Joint ventures: equity method – Associates: equity method – Other long term equity investments: cost method <p>(Note: For the subsequent measurement of short term investments and long term debt investments, please refer to section “Recognition and Measurement of Financial Instruments”)</p>	<ul style="list-style-type: none"> • Subsidiaries: cost method • Joint ventures: equity method • Associates: equity method • Other long term equity investments that do not have a quoted market price in an active market and whose fair value cannot be measured reliably: cost method (if there are quoted market prices in an active market and their fair value can be measured reliably, the long term investment should be dealt with in accordance with the standard on “Recognition and Measurement of Financial Instruments”)
Application of the equity method – equity investment difference/ adjustments on the investment cost	<ul style="list-style-type: none"> • Equity investment difference: the excess of the cost of investment over the acquirer’s share of the carrying amount of the net assets of the investee • Positive difference <ul style="list-style-type: none"> – Amortised over the investment period, if any, as stipulated in the investment contract – Otherwise, amortised over a period of no greater than 10 years 	<ul style="list-style-type: none"> • The term “equity investment difference” has been removed, and is replaced with “the difference between the cost of investment and the investor’s interest in the fair value of the identifiable net assets of the investee”, which should be accounted for in accordance with the principles of the “Business Combinations” standard • Positive difference (excess of the cost of investment over the investor’s interest in the

ASBE 2 – Long-term Equity Investments (Continued)		
Item	Current PRC GAAP	New Chinese Accounting Standards
Application of the equity method – equity investment difference/ adjustments on the investment cost (Continued)	<ul style="list-style-type: none"> Negative difference <ul style="list-style-type: none"> Credited to capital reserve 	<ul style="list-style-type: none"> fair value of the identifiable net assets of the investee) <ul style="list-style-type: none"> Included in the cost of long term equity investment and should not be amortised (similar to the accounting treatment for “goodwill”) Negative difference (excess of the investor’s interest in the fair value of the identifiable net assets of the investee over the cost of investment) <ul style="list-style-type: none"> Recognised in the income statement in the current period
Application of the equity method – recognition of investment gains or losses	<ul style="list-style-type: none"> After acquiring the equity investment, the investor should adjust the carrying value of its investment according to its share of the net result of the investee recognised in the current period, and recognise investment gains or losses in the current period 	<ul style="list-style-type: none"> The investor’s interest in the investee’s post-acquisition net result is determined by making appropriate adjustments to the post-acquisition net result of the investee based on the fair value of the identifiable net assets of the investee at the acquisition date

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 27 Consolidated and Separate Financial Statements	<ul style="list-style-type: none"> Accounting treatments in separate financial statements of the investor: <ul style="list-style-type: none"> Investments in subsidiaries, associates and jointly-controlled entities (joint ventures): using the cost method or accounted for in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”
IAS 28 Investments in Associates	<ul style="list-style-type: none"> Accounting treatments for the following items in the consolidated financial statements of the investor: <ul style="list-style-type: none"> Subsidiaries: consolidate Jointly-controlled entities (joint ventures): either proportionately consolidated or adopt the equity method Associates: apply the equity method
IAS 31 Interests in Joint Ventures	
IAS 39 Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> IAS 28 specifies that when applying the equity method, profits and losses resulting from transactions between an investor and an associate are recognised in the investor’s financial statements only to the extent of unrelated investors’ interests in the associate

ASBE 3 – Investment Property

Item	Current PRC GAAP	New Chinese Accounting Standards
Definition and general requirements	Not previously defined	<ul style="list-style-type: none"> Investment properties are properties held to earn rentals or for capital appreciation, or both, including land use rights and buildings Investment properties should be accounted for separately and presented as a separate line item in the balance sheet

ASBE 3 – Investment Property (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Measurement model	Investment properties are generally accounted for as fixed assets using the cost model. However, property developers, who develop properties for rental purposes, account for these properties as “properties developed for lease” (presented as other long term assets) and are amortised over their useful lives	<ul style="list-style-type: none"> • Cost model is the preferred model, the fair value model may be adopted when specific criteria are met: <ul style="list-style-type: none"> – Cost model: cost less accumulated depreciation and accumulated impairment losses, similar to the measurement of fixed assets or intangible assets – Fair value model: Investment properties are measured at fair value at the end of the period with changes in fair value recognised in the income statement in the current period, depreciation is not provided – When there is sound evidence indicating that the fair value of investment properties can be measured reliably on a continuing basis (meaning an active market exists where the properties are located and the market price of the same or similar type of property can be obtained from the property market. For further guidance refer to the Implementation Guidance), the fair value model can be adopted – Once a measurement model is elected for the investment property portfolio, it cannot be changed arbitrarily. Furthermore, an entity can only adopt one of the measurement models, either cost or fair value for the entire portfolio of investment properties
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 40 Investment Property	<ul style="list-style-type: none"> • It allows the adoption of either the cost model or the fair value model; whereas the New Chinese Accounting standards permit the application of the fair value model only under specific circumstances • Properties held under operating leases can also be treated as investment properties when certain criteria are met 	

ASBE 4 – Fixed Assets

Item	Current PRC GAAP	New Chinese Accounting Standards
Deferred payment of the purchase price (in substance constituting a financing in nature)	Cost is generally determined based on the total purchase price without consideration for any effect of discounting	Fixed assets are recognised at the present value of the purchase price. To calculate present value, effects of discounting must be considered (also applicable to initial measurement of other assets)

ASBE 4 – Fixed Assets (Continued)		
Item	Current PRC GAAP	New Chinese Accounting Standards
Costs of dismantling, removing or restoring fixed assets	Previously not addressed	Costs of dismantling, removing or restoring fixed assets should be included as part of the initial cost of fixed assets. These costs usually refer to expenditures arising from obligations such as environmental protection and ecological restoration which are governed by the state laws, administrative laws and regulations, and international treaties
Subsequent costs	<ul style="list-style-type: none"> Subsequent costs relating to fixed assets should be capitalised if it is probable that it will result in an increase in economic benefits. Other subsequent costs should be recognised as expenses in the period in which they are incurred 	<ul style="list-style-type: none"> The principle for the recognition of subsequent costs is the same as that for the initial recognition of fixed assets; i.e., subsequent costs should be included in the cost of fixed assets, when the following criteria are met: <ul style="list-style-type: none"> It is probable that related economic benefits will flow to the entity Cost can be measured reliably Otherwise the costs should be charged to the income statement in the current period
Component depreciation method	<ul style="list-style-type: none"> If the components of a fixed asset have different useful lives or provide economic benefits to an entity in different patterns, and accordingly different depreciation rates or methods are used, the components are recognised as individual fixed assets 	<ul style="list-style-type: none"> Further clarifies that the component depreciation method should be adopted for the recognition of fixed assets: <ul style="list-style-type: none"> It emphasises that individual components should be recognised separately if the components of a fixed asset have different useful lives or provide economic benefits to an entity in different patterns, accordingly different depreciation rates or methods are used When subsequent costs incurred for qualified fixed assets are recognised as part of the carrying values, the carrying values of the replaced parts for the fixed assets should be derecognised
Estimated net residual value	Refers to the residual amount of proceeds less expenses incurred upon the disposal of fixed assets at the end of their useful lives	Redefines estimated net residual value as “the amount that an entity would <u>currently</u> obtain from the disposal of fixed assets, after deducting their estimated disposal costs, if the assets had already reached the end of their useful lives and were in the condition expected at the end of their useful lives”. Emphasis is on current estimation
Fixed assets held for sale	Previously not addressed	For fixed assets held for sale, adjustments should be made to their estimated net residual value
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 16 Property, Plant and Equipment	<ul style="list-style-type: none"> The revaluation model is allowed to be adopted for subsequent measurement <ul style="list-style-type: none"> However, if the revaluation model is applied, the entire class of property, plant and equipment to which that asset belongs shall be revalued, and revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value Non-current assets held for sale are covered in IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, details are on page 44 of this issue 	

ASBE 5 – Biological Assets

Item	Current PRC GAAP	New Chinese Accounting Standards
Key provisions and changes	<ul style="list-style-type: none"> MOF has issued “Accounting Guidelines for Agricultural Enterprises” (Caikuai [2004] No. 5), which requires the adoption of the cost model for subsequent measurement of biological assets, plus impairment tests 	<ul style="list-style-type: none"> Classifies biological assets into three categories: <ol style="list-style-type: none"> consumable biological assets, bearer biological assets, and biological assets for public benefits Upon subsequent measurement <ul style="list-style-type: none"> The cost model is the preferred treatment, but the standard also allows the fair value model to be used when specific criteria are met The fair value model can be adopted when there is sound evidence indicating that the fair value of the biological assets can be obtained reliably on a continuing basis Impairment of biological assets <ul style="list-style-type: none"> A provision for impairment loss should be recognised for bearer and consumable biological assets, only when there is sound evidence indicating that they are impaired, and the recoverable amount or net realisable value is lower than the carrying value For <u>bearer biological assets</u>, previously recognised impairment loss cannot be reversed in future accounting periods; however for <u>consumable biological assets</u>, impairment loss can be reversed only when specific criteria are met

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 41 Agriculture	<ul style="list-style-type: none"> Discusses the treatment for biological assets, agricultural products and government grants relating to agriculture The fair value model is required to be adopted for the measurement of biological assets and agricultural products. The only exception is, when market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable, the cost model should be adopted
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ASBE 6 – Intangible Assets

Item	Current PRC GAAP	New Chinese Accounting Standards
Definition	Refers to non-monetary long term assets without physical substance held for use in the production of goods, supply of services, for rental or for administrative purposes. They can be classified into identifiable intangible assets and unidentifiable intangible assets	<ul style="list-style-type: none"> Redefined as identifiable non-monetary assets owned or controlled by the entity <ul style="list-style-type: none"> Identifiable means the assets are separable from the entity or they arise from legal or contractual rights

ASBE 6 – Intangible Assets (Continued)		
Item	Current PRC GAAP	New Chinese Accounting Standards
Initial measurement of intangible assets contributed by investors	<ul style="list-style-type: none"> Based on the value determined by each investor (not necessarily the fair value at acquisition date) Intangible assets contributed by investors in exchange for shares of an entity in an initial public offering should be recorded at their carrying value originally recorded in the books of the investors 	<ul style="list-style-type: none"> Determined according to the value stipulated in the contract or agreement; or if the value is not fair, determined according to the fair value of the intangible assets (also applicable to the initial measurement of other assets)
Intangible assets internally developed by the entity	<ul style="list-style-type: none"> Research and development expenses are directly recognised in the income statement in the current period, and should not be capitalised For intangible assets internally developed by the entity, only expenses such as registration fees and legal fees incurred on their legal applications can be capitalised 	<ul style="list-style-type: none"> Research expenditure should be recognised as an expense when incurred Development expenditure should be capitalised when all the following criteria are met: <ul style="list-style-type: none"> Technical feasibility; Management’s intention to complete the intangible asset and use or sell it; Future economic benefits; The availability of adequate resources to complete the development and to use or sell the intangible asset; and Cost can be measured reliably.
Amortisation	<ul style="list-style-type: none"> Starting from <u>the month in which it is acquired</u>, the cost of an intangible asset should be amortised, using the straight-line method over the estimated useful life, and recorded in the income statement Estimated useful life <ul style="list-style-type: none"> If the estimated useful life of an intangible asset exceeds the beneficial period stipulated by related contracts or the effective period stipulated by laws, it should be amortised over the shortest period If no such period is stipulated by the contracts or laws, it should be amortised over a period no greater than 10 years 	<ul style="list-style-type: none"> Intangible assets are classified into 2 categories, those with finite useful lives and those with indefinite useful lives Intangible assets with finite useful lives are amortised systematically over their useful lives, subject to impairment tests according to the requirements of the standard “Impairment of Assets” <ul style="list-style-type: none"> Amortisation begins when an intangible asset is available for use and should cease when the asset is derecognised The amortisation method should reflect the pattern in which economic benefits are expected to be consumed. If the pattern cannot be determined reliably, the straight-line method should be used The amortisable amount is the amount arrived at after deducting the estimated residual value from the cost of the intangible asset Intangible assets with indefinite useful lives (there is no foreseeable limit to the period over which the assets are expected to generate economic benefits for the entity): should not be amortised. However, impairment testing should be conducted annually, or whenever there is an indication of impairment The useful life and amortisation method for intangible assets should be reviewed regularly

ASBE 6 – Intangible Assets (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Land use rights	<ul style="list-style-type: none"> Land use rights should be accounted for as intangible assets before development and construction commences When a property developer develops residential buildings for sale, the land use rights should be transferred to the development cost When the entity uses land to build projects for its own use, the land use rights should be transferred to construction in progress, and then to fixed assets when the construction is completed 	<ul style="list-style-type: none"> Land use rights are generally recognised as intangible assets other than those qualified as investment properties When a property developer constructs buildings for external sales, the related land use rights should be recognised as development cost When the entity constructs buildings for its own use, related land use rights should be accounted for separately and are no longer required to be transferred to construction in progress and subsequently to fixed assets. The amount paid for the purchase of land and buildings should be allocated between the buildings and the land use rights. If an appropriate allocation cannot be made, both the land use right and buildings should be recognised as fixed assets
Pre-operating expenses	Initially accounted for as long term deferred expenditures, and subsequently charged to the income statement during the month in which the entity commences operations	Recognised as an expense in the period in which they are incurred
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 38 Intangible Assets	<ul style="list-style-type: none"> The revaluation model is permitted to be adopted upon subsequent measurement (if the fair value can be obtained by referring to the market price in an active market) Land use rights are generally accounted for as operating leases except for the treatment of land use rights as investment properties when certain criteria are met. More information on the treatment is provided on page 30 of this issue 	

ASBE 7 – Exchange of Non-monetary Assets

Item	Current PRC GAAP	New Chinese Accounting Standards
Key changes	<ul style="list-style-type: none"> The original standard is titled “Non-monetary Transactions” Values recognised for assets received: generally determined based on the carrying values of assets given up <ul style="list-style-type: none"> No cash element is paid or received: <ul style="list-style-type: none"> Carrying value of assets given up + related tax charges When cash element is paid: <ul style="list-style-type: none"> Carrying value of assets given up + cash paid + related tax charges When cash element is received: <ul style="list-style-type: none"> Carrying value of assets given up – [cash received x carrying value of 	<ul style="list-style-type: none"> Where the exchange of non-monetary assets has commercial substance and the fair values of assets received or given up can be measured reliably: <ul style="list-style-type: none"> Assets received are recorded at fair value Differences between the fair values and the carrying values of assets given up are recognised in the income statement Where the exchange transaction lacks commercial substance, assets received are recorded at the carrying values of assets given up. Gains or losses are not recognised

ASBE 7 – Exchange of Non-monetary Assets (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Key changes (Continued)	<p>assets given up / fair value of assets given up] + related tax charges</p> <ul style="list-style-type: none"> Gains are recognised only when the cash element is received <ul style="list-style-type: none"> Gains to be recognised = cash received – [cash received x carrying value of assets given up / fair value of assets given up] 	<ul style="list-style-type: none"> The following guidance is provided in the standard to distinguish whether an exchange transaction has “commercial substance”. Provided either of the following two criteria is met, the exchange is deemed to have commercial substance: <ul style="list-style-type: none"> When the configuration (risk, timing and amount) of the future cash flows of the assets received is significantly different from the configuration of the cash flows of the assets given up; or When the differences between the present values of estimated future cash flows generated from the assets received and assets given up are significant relative to the fair value of the assets exchanged.

Equivalent IFRS/IFRS dealing with the same or similar issues

There is no separate equivalent standard under IFRS, however, the standard is generally consistent with the principles in IAS 16 “Property, Plant and Equipment”

ASBE 8 – Impairment of Assets

Item	Current PRC GAAP	New Chinese Accounting Standards
Scope	The “Accounting System for Business Enterprises” has set out the requirements of impairment provision against eight types of assets, including receivables, inventories, short term investments, long term investments, fixed assets, construction in progress, intangible assets, and designated loans	The standard mainly addresses long term assets such as fixed assets (including construction in progress), intangible assets, investment properties measured at cost, certain long term equity investments (in subsidiaries, associates and joint ventures), and goodwill. Assets such as inventories and financial assets are not addressed by the standard
Impairment test	<ul style="list-style-type: none"> The entity should review each asset regularly, or at least at the end of each year, and provide for any impairment loss 	<ul style="list-style-type: none"> The entity should assess whether there is any indicators for impairment at the balance sheet date. If an indicator exists, the entity needs to estimate the recoverable amount of the assets and determine the impairment loss accordingly However, for goodwill and intangible assets with indefinite useful lives, an impairment test should be performed at least annually regardless of whether indication of impairment exists
Determining the recoverable amount	<ul style="list-style-type: none"> The recoverable amount is determined to be the higher of an asset’s fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset 	<ul style="list-style-type: none"> Provides more guidance on the determination of the recoverable amount for each individual asset and asset group When it is not possible to estimate the recoverable amount of an individual asset,

ASBE 8 – Impairment of Assets (Continued)		
Item	Current PRC GAAP	New Chinese Accounting Standards
Determining the recoverable amount (Continued)	<ul style="list-style-type: none"> The recoverable amount is determined by individual asset 	<p>the entity should determine the recoverable amount of the asset group that the asset belongs to, and allocate the appropriate impairment loss to individual assets in the group</p> <ul style="list-style-type: none"> The term “asset group” refers to the smallest identifiable group of assets, which generates cash inflows largely independent of the cash inflows from other assets or groups of assets
Impairment of goodwill	Previously not addressed	Goodwill should be allocated to each asset group or group of asset groups, and impairment tests should be performed at least annually regardless of whether indication of impairment exists
Reversal of impairment provision	Under certain circumstances, reversal of impairment provision is permitted	Provision for impairment of assets is not permitted to be reversed
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 36 Impairment of Assets	<ul style="list-style-type: none"> Impairment of goodwill cannot be reversed. Provision for impairment of other assets is allowed to be reversed under specific circumstances The term “cash-generating unit” is adopted to replace the concept of “asset group” under the Chinese standards 	

ASBE 9 – Employee Compensation		
Item	Current PRC GAAP	New Chinese Accounting Standards
General requirements	Set out in various sections of the “Accounting System for Business Enterprises” and other accounting regulations	<ul style="list-style-type: none"> Summarises accounting treatments for different types of employee compensation which were previously provided in various accounting regulations Includes salary, employee benefits, social insurance, non-monetary benefits, termination benefits, etc. General principles for the accounting for all types of employee compensation: recognised as a liability in the accounting period in which employees provided services. Depending on the nature of the expense it should either be recognised as part of the cost of an asset or expensed in the income statement. This accounting principle is not applicable to termination benefits
Measurement	Set out in various sections of the “Accounting System for Business Enterprises” and other accounting regulations	<ul style="list-style-type: none"> If the state has specified a provision basis and a provision rate, a provision should be made in accordance with the standard provided by the state Where the provision basis and provision rate are not specified, the entity should make a reasonable estimation of the

ASBE 9 – Employee Compensation (Continued)		
Item	Current PRC GAAP	New Chinese Accounting Standards
Measurement (Continued)		<p>employee compensation payable for the current period in accordance with its own circumstances and historical data</p> <ul style="list-style-type: none"> • The impact of discounting should be considered for long term employee compensation payables
Termination benefits	Previously not addressed	<ul style="list-style-type: none"> • Compensation paid for the dismissal of labour relations with employees (termination benefits) is recognised when a present obligation arises • Both of the following criteria need to be fulfilled when a provision is recognised: <ul style="list-style-type: none"> – The entity has a documented formal plan to dismiss the labour relations (a dismissal plan) or has presented a voluntary redundancy proposal, and are in a position to enforce the plan; and – The entity has established an obligation, and cannot withdraw the dismissal plan or the redundancy proposal
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 19 Employee Benefits	<ul style="list-style-type: none"> • Defined benefit plans: IAS 19 requires that for such post-employment benefits, liabilities and expenses should be recognised in the period during which services are provided by employees, and it provides detailed guidance on this. However, the new Chinese standard has not addressed the accounting treatment for post-employment benefits under defined benefit plans 	

ASBE 10 – Enterprise Annuity Fund		
Item	Current PRC GAAP	New Chinese Accounting Standards
Key changes	Previously not addressed	<ul style="list-style-type: none"> • Enterprise annuity fund is an entity's supplementary pension fund which is formed according to the entity's annuity plan under the relevant laws, plus the investment and operation income of the fund • Enterprise annuity fund should be regarded as an individual reporting entity for recognition, measurement and presentation • The standard explains in detail the accounting treatments for assets, liabilities, income, expenses and net assets of the enterprise annuity fund, as well as contents of the balance sheet, statement of changes in net assets and related notes • All of the investments held by the enterprise annuity fund are measured at fair value

ASBE 10 – Enterprise Annuity Fund (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 26 Accounting and Reporting by Retirement Benefit Plans	<ul style="list-style-type: none"> IAS 26 is applicable to the accounting and reporting of all retirement benefit plans, including defined contribution plans and defined benefit plans. However, the new Chinese standard does not address the accounting treatment for defined benefit plans 	

ASBE 11 – Share-based Payment

Item	Current PRC GAAP	New Chinese Accounting Standards
General requirements	Previously not addressed	<ul style="list-style-type: none"> Requires the entity to recognise share-based payment transactions in its financial statements, using a fair value measurement basis, when services are provided by either employees or non-employees The shares or options granted are expensed in the income statement Share-based payment transactions are classified as either equity-settled share-based payment or cash-settled share-based payments. There are significant differences in accounting treatments for the two types of classifications
Equity-settled share-based payment (e.g., shares and options granted to employees)	Previously not addressed	<ul style="list-style-type: none"> If the share-based payment is made in exchange for services provided by employees, it should be measured at the fair value of the equity instruments at the grant date <ul style="list-style-type: none"> If the equity instruments granted vest immediately, (i.e., on the grant date), the entity recognises the services received during the current period, with a corresponding increase in equity, based on the fair value of the equity instruments at the grant date. It is presumed that the services rendered by employees as consideration for the equity instruments have been received If certain vesting conditions exist, the entity recognises the services received at each balance sheet date during the vesting period with a corresponding increase in equity, based on the fair value of the equity instruments at the grant date and the most recent best estimate on the number of equity instruments which will vest. If circumstances subsequently change,

ASBE 11 – Share-based Payment (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Equity-settled share-based payment (e.g., shares and options granted to employees) (Continued)		<p>the entity should revise its estimate and account for the transaction accordingly, until at vesting date, the number has been revised to reflect the actual number of equity instruments vested. (It is presumed that services rendered by employees as consideration for equity instruments are received by the entity during the vesting period)</p> <ul style="list-style-type: none"> – After the vesting date, the entity should not make any subsequent adjustments to total equity or the total expenses recognised • If the share-based payment is made in exchange for services rendered by others: <ul style="list-style-type: none"> – If the fair value of the services received can be measured reliably, the transaction should be measured at the fair value of the services received at the date when the entity receives them – If the fair value of the services received cannot be measured reliably, the transaction should be measured at the fair value of the equity instruments at the date when the entity receives the services
Cash-settled share-based payment (e.g., share appreciation rights)	Previously not addressed	<ul style="list-style-type: none"> • Measured at the fair value of the liabilities assumed • Until the liability is settled, the entity should remeasure the fair value of the liability at each balance sheet date and at the date of settlement, with any changes in fair value recognised in the income statement in the current period
Equivalent IFRS/IFRS dealing with the same or similar issues		
IFRS 2 Share-based Payment	<ul style="list-style-type: none"> • IFRS 2 also addresses the following issues: <ul style="list-style-type: none"> – Share-based payment transactions for which goods are obtained by entities – Modifications to the terms and conditions on which equity instruments are granted, including cancellations and replacements – Share-based payment with cash alternatives settlement 	

ASBE 12 – Debt Restructurings

Item	Current PRC GAAP	New Chinese Accounting Standards
General principle	Generally adopts the carrying value as the measurement basis, with debt restructuring gains recorded as capital surplus and debt restructuring losses charged to the income statement in the current period	Introduces fair value measurement, with debt restructuring gains recognised in the income statement in the current period
Definition	<ul style="list-style-type: none"> Refers to an event in which a creditor gives consent to a debtor’s request to modify the terms of a debt according to the agreement with the debtor or a judgment issued by the court 	<ul style="list-style-type: none"> Redefines debt restructuring as an event in which a debtor is in <u>financial difficulty</u> and a creditor grants a <u>concession</u> to the debtor in accordance with a mutual agreement or a judgment issued by the court
Accounting treatment for the debtor	<ul style="list-style-type: none"> Debt restructuring gains and losses are calculated based on the difference between: <ol style="list-style-type: none"> the carrying value of a restructured debt; and cash paid for the settlement of liabilities, the carrying value of assets or shares transferred out, or the carrying value of the debt after the restructuring. Debt restructuring gains should be recorded as capital surplus Where a debt restructuring involves modification of the terms of a debt, and the carrying value of the restructured debt is greater than the amount payable in the future, the carrying value should be reduced to the future payable amount. If the carrying value of the restructured debt equals or is less than the future payable amount, the entity is not required to make any accounting entries 	<ul style="list-style-type: none"> Debt restructuring gains are calculated based on the difference between: <ol style="list-style-type: none"> the carrying value of a restructured debt; and cash paid for the settlement of liabilities, the fair value of assets or shares transferred out, or the fair value of the debt after the restructuring. Debt restructuring gains should be recognised in the income statement in the current period Differences between the fair value and carrying value of assets are recorded in the income statement in the current period Criteria for the derecognition of financial liabilities under the standard “Recognition and Measurement of Financial Instruments” should be considered
Accounting treatment for the creditor	<ul style="list-style-type: none"> Non-cash assets transferred in or equity interest acquired should be accounted for at the carrying value of a restructured debt Where a debt restructuring involves modification of the terms of a debt, and the carrying value of the restructured debt is greater than the amount receivable in the future, the carrying value of the restructured debt should be reduced to the future receivable amount. If the carrying value of the restructured debt equals or is less than the future receivable amount, the entity is not required to make any accounting entries 	<ul style="list-style-type: none"> Non-cash assets transferred in, equity interest acquired or debt balance after the restructuring should be accounted for at fair value Difference between <ol style="list-style-type: none"> the carrying value of a restructured debt, and the fair value of assets and shares transferred in, or the fair value of the debt after the restructuring, should be recognised as debt restructuring loss Criteria for the derecognition of financial assets under the standard “Recognition and Measurement of Financial Instruments” should be considered

Equivalent IFRS/IFRS dealing with the same or similar issues

There is not an equivalent standard under IFRS, however, the principle under this standard is generally consistent with principles contained in IFRS

ASBE 13 – Contingencies		
Item	Current PRC GAAP	New Chinese Accounting Standards
Measurement of provision	Generally, the effect of discounting is not considered	<ul style="list-style-type: none"> • If the time value of money is significant, the effect of discounting to present value should be considered
Onerous contracts	Previously not addressed	<ul style="list-style-type: none"> • An onerous contract refers to a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it • Recognised as provision when specific criteria are met
Restructuring costs	Previously not addressed	<ul style="list-style-type: none"> • Recognised as provision when specific criteria are met <ul style="list-style-type: none"> – There is a documented, formal restructuring plan, which has been publicly announced – Amount of the provision is determined with regard to direct expenditures relating to the restructuring costs
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	No significant differences	
ASBE 14 – Revenue		
Item	Current PRC GAAP	New Chinese Accounting Standards
Definition	Refers to the gross inflow of economic benefits arising in the course of the ordinary activities of an entity, from such events as the sale of goods, the rendering of services and the use by others of entity's assets	<ul style="list-style-type: none"> • Refers to the gross inflow of economic benefits during the period arising in the course of the ordinary activities of an entity when those inflows result in increases in equity, other than increases relating to contributions from equity participants • Clarifies that inflow of economic benefits relating to contributions from equity participants should not be treated as revenue
Measurement	Measured at the amount stipulated in the contract, agreement or an amount agreed by both parties	<ul style="list-style-type: none"> • Revenue is measured at the amount received or receivable which is stipulated in the contract or agreement, but it should be measured at fair value of consideration if the amount is not "fair" • If the consideration is received with deferred settlement terms, which in substance constitutes a financing arrangement, the revenue should be measured at fair value
Interest income	Determined based on the length of time for which the entity's cash is used by others and the applicable interest rate	Determined based on the length of time for which the entity's cash is used by others and the effective interest rate
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 18 Revenue	No significant differences	

ASBE 15 – Construction Contracts		
Item	Current PRC GAAP	New Chinese Accounting Standards
Financial expenses	Excluded from the cost of contract	Accounted for in accordance with the standard “Borrowing Costs”
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 11 Construction Contracts	No significant differences	

ASBE 16 – Government Grants		
Item	Current PRC GAAP	New Chinese Accounting Standards
Definition	<ul style="list-style-type: none"> No specific definition. The accounting treatments for different types of government grants are set out in the “Accounting System for Business Enterprises” and other accounting regulations 	<ul style="list-style-type: none"> Government grants are the monetary assets or non-monetary assets obtained by the entity from the government, excluding capital contributions by the government as an equity participant Categorises and summarises the accounting treatments for different types of government grants
Recognition	<ul style="list-style-type: none"> Grants with a fixed or determinable amount (for example based on volume of sales in accordance with regulations) are recognised on an accrual basis, other government grants are generally recognised on a cash basis 	<ul style="list-style-type: none"> Recognised when conditions attached to the grants could be met and the government grants could be received
Government grants related to assets	<ul style="list-style-type: none"> Generally recorded as capital surplus For grants allocated by the state to be used for projects such as technical construction and technical development, and which form part of an asset upon completion of the project, the amount should be recorded as capital surplus 	<ul style="list-style-type: none"> Presented as deferred income, and recognised as income over the useful lives of the assets on a straight-line basis
Government grants related to income	<ul style="list-style-type: none"> Generally accounted for as subsidy income on receipt 	<ul style="list-style-type: none"> Government grants as compensation for expenses or losses which have already been incurred or will be incurred are recognised in the income statement of the current or future period
Non-monetary government grants	Previously not addressed	<ul style="list-style-type: none"> Measured at fair value, or nominal value if the fair value cannot be measured reliably

Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 20 Government Grants	<p>The principle of this standard is generally consistent with that of IAS 20. However, under IAS 20, the following accounting treatments can be selected for adoption</p> <ul style="list-style-type: none"> Government grants related to assets <ul style="list-style-type: none"> Presented as deferred income and recognised appropriately and systematically as income over the useful lives of the assets; or The amount of a grant is deducted from the carrying value of the assets (i.e., through the reduction of depreciation costs, the grant is recognised as income over the useful lives of depreciable assets) Government grants related to income <ul style="list-style-type: none"> For government grants provided as compensation for expenses or losses which have already incurred or will be incurred, the entity recognises them as income or reduction of expense in the current or future period. 	

ASBE 17 – Borrowing Costs		
Item	Current PRC GAAP	New Chinese Accounting Standards
Scope of assets whose related borrowing costs should be capitalised	Only applicable to fixed assets	The scope has been extended to include assets whose related borrowing costs are eligible for capitalisation, such as fixed assets, investment properties and inventories, where a substantial period of time is required to bring them to a usable or saleable condition
Scope of borrowings whose borrowing costs should be capitalised	Refers only to <u>specific borrowings</u> for the acquisition or construction of <u>fixed assets</u>	Extended to include specific borrowings and general borrowings
Capitalisation amount of interest (including amortisation of premium and discount)	<ul style="list-style-type: none"> Interest for specific borrowings: the weighted average amount of accumulated expenditure × the weighted average interest rate of specific borrowings Temporary investment income cannot be deducted from the cost of assets 	<ul style="list-style-type: none"> Specific borrowings <ul style="list-style-type: none"> All of the interest charged Temporary investment income should be deducted from the capitalisation amount General borrowings: the weighted average amount of accumulated expenditure on assets after netting off specific borrowings × the weighted average interest rate of general borrowings
Ancillary costs	<ul style="list-style-type: none"> Ancillary costs related to specific borrowings should be capitalised when incurred, provided they are incurred before the acquired or constructed fixed assets are ready for its intended use Ancillary costs incurred afterwards or ancillary costs related to other borrowings should be expensed when incurred Insignificant ancillary costs may also be directly expensed 	<ul style="list-style-type: none"> Ancillary costs relate to specific borrowings should be capitalised based on the determined amount when incurred, provided they are incurred before the acquired or constructed fixed assets are ready for its intended use. Borrowing costs incurred afterwards should be expensed as incurred The determined amount mentioned above is the adjusted amount to the interest expense for each period based on the transaction costs of financial liabilities recognised by applying the effective interest method in accordance with the standard “Recognition and Measurement of Financial Instruments” Ancillary costs incurred in connection with general borrowings should also be treated in accordance with the principles discussed above
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 23 Borrowing Costs	<ul style="list-style-type: none"> Under IAS 23, the benchmark treatment is to expense borrowing costs in the period when they incurred. The allowed alternative treatment is the capitalization of borrowing costs when specific criteria are met In terms of capitalisation of borrowing costs, the standard is similar to IAS 23 	

ASBE 18 – Income Taxes

Item	Current PRC GAAP	New Chinese Accounting Standards
General requirements	<p>The tax payable method or tax effect accounting method can be adopted</p> <ul style="list-style-type: none"> • Tax payable method <ul style="list-style-type: none"> – Tax expense for the current period is recognised based on the taxes paid or payable for the period • Tax effect accounting method <ul style="list-style-type: none"> – Recognises the effect of <u>timing differences</u> on income taxes – Deferral method or income statement liability method could be used 	<p>The tax effect accounting method should be adopted</p> <ul style="list-style-type: none"> • Recognise the effect of <u>temporary differences</u> on income taxes • Apply the balance sheet liability method
Temporary differences/ timing differences	<ul style="list-style-type: none"> • Based on the income statement, the timing difference refers to the difference between the accounting profit before tax and the taxable profit, which arises from the difference on the timing of the recognition of income, expenses or losses under tax rules and accounting requirements. Timing differences can be classified into taxable timing differences and deductible timing differences 	<ul style="list-style-type: none"> • Based on the balance sheet, the temporary difference refers to the difference between the carrying value and the tax base of assets or liabilities, and can be classified into taxable temporary differences and deductible temporary differences
Recognition of deferred taxes	<ul style="list-style-type: none"> • Deferred tax expenses should be recognised for taxable timing differences and deductible timing differences • Deferred tax assets should be recognised only if it is expected that there will sufficient taxable profit during the period of the reversal of the timing differences in future periods (generally limited to 3 years); otherwise, the differences should be treated as permanent differences 	<ul style="list-style-type: none"> • With certain exceptions, deferred tax liabilities should be recognised for all taxable temporary differences • With certain exceptions, deferred tax assets arising from deductible temporary differences, unused tax losses, and unused tax credits should be recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised
Measurement	<ul style="list-style-type: none"> • Deferral method <ul style="list-style-type: none"> – Measured at the current applicable tax rate – When the tax rate changes or a new tax is imposed, no adjustment is made to the amount of income taxes previously recognised, and the original tax rate is used when reversing the tax effects of timing differences • Liability method <ul style="list-style-type: none"> – Measured at the current applicable tax rate – When the tax rate changes or a new tax is imposed, adjustments are made to the amount of income taxes previously recognised, and the current tax rate is used when reversing the tax effects of timing differences 	<ul style="list-style-type: none"> • $\text{Deferred tax assets/liabilities} = \text{temporary differences} \times \text{applicable tax rates}$ • Based on the tax laws enacted at the balance sheet date, deferred taxes should be measured at the tax rate expected to apply when the assets are realised or liabilities are settled, and should reflect the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 12 Income Taxes	No significant differences, however, IAS 12 specifies that deferred tax assets and liabilities should be offset when specific criteria are met
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ASBE 19 – Foreign Currency Translation		
Item	Current PRC GAAP	New Chinese Accounting Standards
Determination of recording currency	An entity should adopt Renminbi as the recording currency for accounting purposes. For an entity whose operating income or expenses are mainly denominated in currencies other than Renminbi, it can select one of those currencies as its recording currency. However, the financial statements should be presented in Renminbi	An entity should determine its recording currency based on the primary economic environment in which it operates. However, the financial statements should be presented in Renminbi
Translation of foreign currency transactions	<ul style="list-style-type: none"> • Translation on the date of transaction: at the exchange rate ruling on the transaction date or at the beginning of the current period • At the end of the period, balance of the foreign currency account should be translated at the exchange rate prevailing at the end of the period, and translation differences are generally recognised as exchange gains or losses 	<ul style="list-style-type: none"> • Initial recognition: translated at the exchange rate ruling on the transaction date (or an approximate exchange rate) • At the balance sheet date: <ul style="list-style-type: none"> – Monetary items denominated in foreign currencies should be translated at the exchange rate prevailing at the end of the period. Exchange differences arising on re-translation should be recognised in the income statement in the current period – Non-monetary items carried at historical cost and denominated in foreign currencies should be carried at the rate on the date of the transaction, rather than being re-translated
Translation of financial statements of foreign operations and financial statements prepared in foreign currency	<ul style="list-style-type: none"> • The concept of foreign operation is not addressed • The translation method used for financial statements prepared in foreign currency and financial statements of overseas subsidiaries prepared in foreign currency is similar to that under the new standard 	<ul style="list-style-type: none"> • A foreign operation is an entity that is a domestic or an overseas subsidiary, associate, joint venture or branch of a reporting entity, whose recording currency is different to that of the reporting entity • Translation of financial statements of foreign operations <ul style="list-style-type: none"> – Asset and liability items in the balance sheet are translated at the exchange rate prevailing at the end of the period. All owners' equity items other than "retained earnings" are translated at the exchange rate ruling on the transaction date – Profit and loss items in the income statement are translated at the exchange rate ruling on the transaction date (or an approximate exchange rate) – Translation differences are recorded as a separate item under the owners' equity in the balance sheet – Upon disposal of foreign operations, relevant foreign currency translation differences should be recognised in the income statement in the current period • Financial statements prepared in foreign currency should also be translated into Renminbi in accordance with the principles above

ASBE 19 – Foreign Currency Translation (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Separate book-keeping system for financial enterprises	There is a specific requirement that entities adopting separate book-keeping system should apply the original currency in accounting and in the preparation of financial statements. At the end of the period, financial statements prepared in various original currencies should be translated into Renminbi. The translation method is similar to that for financial statements prepared in foreign currency, with translation differences presented as a separate component of the owners' equity	This specific requirement has been withdrawn. Separate book-keeping system may be adopted in daily accounting. However, for the translation of foreign currency transactions, entities should use the same translation method as discussed above

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 21 The Effects of Changes in Foreign Exchange Rates	<ul style="list-style-type: none"> The term “functional currency” is used to replace the concept of “recording currency” under the new Chinese standard Entities are allowed to adopt any presentation currency (the currency in which the financial statements are presented) 	
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ASBE 20 – Business Combinations

Item	Current PRC GAAP	New Chinese Accounting Standards
General accounting treatment	<ul style="list-style-type: none"> There is no distinction between business combinations involving entities under common control and business combinations involving entities not under common control The purchase method is usually applied 	<ul style="list-style-type: none"> Classified into business combinations involving entities under common control and business combinations involving entities not under common control If entities involved in the combinations are ultimately controlled by the same party or parties and the control is not transitory, it is classified as a business combination involving entities under common control. All other transactions are classified as business combination involving entities not under common control
Business combinations involving entities under common control	Previously not addressed	<ul style="list-style-type: none"> In principle, the pooling of interests method should be applied Assets and liabilities acquired in the combinations are measured at their original carrying value except for the adjustments resulting from different accounting policies No goodwill is recognised. The difference between the costs of combinations (based on carrying value) and the shares of the carrying value of the net assets acquired should be adjusted against equity Net profit of the combined entity before the combination should be incorporated in the consolidated income statement

ASBE 20 – Business Combinations (Continued)		
Item	Current PRC GAAP	New Chinese Accounting Standards
Business combinations involving entities not under common control	<p>The general accounting treatment is to adopt the purchase method (it is not specified whether it is for business combination involving entities under common control or not under common control)</p> <ul style="list-style-type: none"> At the acquisition date, assets and liabilities of the acquiree are usually recognised at the <u>carrying value</u> (or revalued amount under certain circumstances) Goodwill(or consolidation difference or equity investment difference) is amortised on a systematic basis Negative goodwill (or equity investment credit difference) is usually recorded as capital reserve 	<ul style="list-style-type: none"> In principle, the purchase method should be applied At acquisition date, assets, liabilities and contingent liabilities acquired are recognised at <u>fair value</u> Goodwill is the excess of the costs of combination (based on fair value) over the acquirer’s interest in the fair value of the acquiree’s identifiable net assets. Goodwill is not amortised and should be measured at cost less impairment loss Excess of the acquirer’s interest in the fair value of the acquiree’s identifiable net assets over the combination costs (negative goodwill) should be credited to the income statement in the current period after reassessment Net profit of the acquiree should be incorporated into the consolidated income statement from the acquisition date
Combinations of businesses	Previously not addressed	Combinations of businesses operations are treated in the same way as combinations of entities
Equivalent IFRS/IFRS dealing with the same or similar issues		
IFRS 3 Business Combinations	For accounting treatment of business combinations involving entities not under common control, the standard is generally consistent with IFRS 3. However, IFRS 3 does not deal with business combinations involving entities under common control	

ASBE 21 - Leases		
Item	Current PRC GAAP	New Chinese Accounting Standards
Classification of finance lease and operating lease	When a lease has substantially transferred all the risks and rewards relating to the ownership of the leased asset to the lessee, it is classified as finance lease. One of the criteria to classify a lease as finance lease is that the present value of minimum lease payment/receipt of a lease almost equals the <u>original carrying amount</u> of the leased asset	The principle for classification is consistent with that before the revision. However, one of the criteria to classify a lease as finance lease has been revised to: the present value of minimum lease payment/receipt of a lease almost equals the <u>fair value</u> of the leased asset

ASBE 21 – Leases (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Finance lease - accounting by the lessee	<ul style="list-style-type: none"> At the inception of the lease, the leased asset should be recorded at the lower of the <u>original carrying value</u> of the asset and the present value of the minimum lease payment Unrecognised finance expenses (the total of minimum lease payments less the recording amount of the leased assets) can be amortised in each accounting period using the effective interest method, straight-line method or sum-of-the-years method However, if the total amount of leased assets is less than or equals to 30% of the total assets of the lessee, the lessee may directly record the leased assets and long term payables at the minimum lease payment without calculating the unrecognised finance expenses 	<ul style="list-style-type: none"> At the inception of the lease, the leased asset should be recorded at the lower of its <u>fair value</u> and the present value of the minimum lease payment Unrecognised finance expenses should be amortised over the lease term using the effective interest method
Initial direct costs	<ul style="list-style-type: none"> Recognised as expenses in the current period 	<ul style="list-style-type: none"> Added to the recording amount of the leased assets/finance lease receivables
Sale and lease back transactions	<ul style="list-style-type: none"> Operating lease <ul style="list-style-type: none"> The difference between the sales proceeds and the carrying amount of the asset should be deferred and amortised according to the proportion of the lease payments during the lease term 	<ul style="list-style-type: none"> Operating lease <ul style="list-style-type: none"> The difference between the sales proceeds and the carrying value of the asset should be deferred. However, where there is sound evidence indicating the transaction is established at fair value, the difference should be recognised in the income statement in the current period

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 17 Leases	<ul style="list-style-type: none"> No significant differences. IAS 17 specifically sets out that the land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification. The land element is normally classified as an operating lease, while the buildings element is classified as a finance lease or an operating lease in accordance with the general principle. If the lease payments cannot be allocated reliably between these two elements, the entire lease should be classified as a finance lease, unless it is clear that both elements are operating leases. However, if the lease is qualified as an investment property and the fair value model is adopted in accordance with IAS 40, it is not necessary to separate the land and the buildings elements
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ASBE 22 – Recognition and Measurement of Financial Instruments

Item	Current PRC GAAP	New Chinese Accounting Standards
Scope and definition	<p>There is no definition for financial instruments. Investments, which are discussed in the new standard as part of financial assets, are governed by the standard “Investments”, while regulations on other financial assets, financial liabilities and equity instruments are set out under various sections of the “Accounting System for Business Enterprises”, the “Accounting System for Financial Enterprises” and other accounting regulations</p> <p>The MOF has promulgated “Tentative Directive for the Recognition and Measurement of Financial Instruments” (Caikuai [2005] No. 14), requiring its trial implementation in listed commercial banks and commercial banks in the process of listing. It is similar to the new standard in a number of aspects</p>	<p>The standard has a wide scope, including all financial assets and financial liabilities, ranging from simple cash to complex embedded derivatives. Short term investments, long term debt investments and certain long term equity investments which were previously covered by the standard “Investments” are currently dealt with by this standard</p>
Classification	<p>Classification of investments included in financial assets are as follows:</p> <ul style="list-style-type: none"> • Classified into short term investments and long term investments, and can further be classified into equity investments and debt investments 	<p>Financial assets can be classified into four categories upon initial recognition:</p> <ul style="list-style-type: none"> • Financial assets measured at fair value through profit or loss: includes financial assets held for trading and other financial assets designated into this category • Held-to-maturity investments: refers to non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity • Loans and receivables: refers to non-derivative financial assets with fixed or determinable payments that are not quoted in an active market • Financial assets available for sale: are those non-derivative financial assets that are designated as available for sale upon initial recognition or are not classified as other categories <p>Financial liabilities can be classified into two categories:</p> <ul style="list-style-type: none"> • Financial liabilities measured at fair value through profit or loss: including financial liabilities held for trading and other financial liabilities designated into this category • Other financial liabilities

ASBE 22 – Recognition and Measurement of Financial Instruments (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Initial measurement	<ul style="list-style-type: none"> • Generally recorded at cost 	<ul style="list-style-type: none"> • Recorded at fair value • For categories other than financial assets and liabilities measured at fair value through profit or loss, directly attributable transaction costs should be included
Subsequent measurement	<ul style="list-style-type: none"> • Short term investments <ul style="list-style-type: none"> – Measured at the lower of cost and market price • Long term equity investments (without control, joint control or significant influence) <ul style="list-style-type: none"> – Measured at cost less impairment losses • Long term debt investments <ul style="list-style-type: none"> – Measured at cost plus/minus the amortisation of premium/discount, less impairment losses – Premium or discount is amortised using the straight-line method or the effective interest method • Other financial instruments classified as financial assets under the new standard are generally measured at cost. And impairment should be assessed • Other financial instruments classified as financial liabilities under the new standard are generally recorded at the amount incurred. For interest-bearing liabilities such as loans and bonds payable, interest is provided based on the terms, and premium or discount is amortised using the straight-line method or the effective interest method 	<ul style="list-style-type: none"> • Financial assets and liabilities measured at fair value through profit or loss <ul style="list-style-type: none"> – Measured at fair value with changes in fair value recognised in the income statement in the current period • Held-to-maturity investments <ul style="list-style-type: none"> – Measured at amortised cost using the effective interest method • Loans and receivables <ul style="list-style-type: none"> – Measured at amortised cost using the effective interest method • Financial assets available for sale <ul style="list-style-type: none"> – Measured at fair value with changes in fair value recognised in capital reserve until they are impaired or derecognised, at which time the accumulated gains or losses previously recognised in capital reserve are transferred to the income statement – Interest income, dividend income, impairment losses and exchange gains or losses are recognised in the income statement – Equity instruments which do not have a quoted price in an active market and their fair value cannot be measured reliably are measured at cost • Other financial liabilities <ul style="list-style-type: none"> – Measured at amortised cost using the effective interest method • For held-to-maturity investments, loans and receivables, and financial assets available for sale, impairment should be assessed
Derivative financial instruments	<ul style="list-style-type: none"> • Derivative financial instruments are usually not required to be recorded on the balance sheet; instead, they are disclosed in notes to financial statements 	<ul style="list-style-type: none"> • Derivative financial instruments are usually classified as financial assets and liabilities measured at fair value through profit or loss • Other than effective hedging instruments, they are recognised at fair value in the balance sheet, with changes in fair value recognised in the income statement in the current period • Introduces the concept of embedded derivatives. Under certain circumstances, embedded derivatives should be separated from their host contracts

ASBE 22 – Recognition and Measurement of Financial Instruments (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Impairment of financial assets	<ul style="list-style-type: none"> • Receivables: the recoverability of receivables should be analysed at the end of the accounting period, and bad debt provision should be made • Short term investments: for the excess of the cost over market price, provision for decline in the price of short term investments should be made • Long term investments: if the recoverable amount is lower than the carrying value, provision for impairment of long term investments should be made • Bad debt provision for loan receivables: the recoverability of each loan should be estimated at the end of the accounting period. Impairment losses on loan receivables should be determined and an appropriate provision should be made. Generally, the provision is made based on the assessment according to 5-grade grating system of loans 	<ul style="list-style-type: none"> • The carrying value of financial assets other than those held for trading should be reviewed at the balance sheet date. When there is “objective evidence” indicating that the financial assets are impaired, a provision for impairment should be made • When financial assets measured at amortised cost are impaired, the carrying value should be reduced to the present value of future cash flows, and the reduction should be recorded in the income statement in the current period <ul style="list-style-type: none"> – Individual assessment plus collective assessment • When financial assets available for sale are impaired, accumulated losses resulting from the decline of fair value originally recognised in capital reserve should be transferred to the income statement in the current period • After financial assets are impaired, interest income should be recognised using the original effective interest rate, which is adopted in calculating the present value of future cash flow when impairment losses are determined
Reversal of impairment losses	Allowed to be reversed under certain circumstances	<ul style="list-style-type: none"> • For impairment losses of financial assets measured at amortised cost and debt instruments classified as available for sale, reversal is permitted under certain circumstances • Impairment losses recognised for an investment in an equity instrument classified as available for sale should not be reversed through profit or loss • Impairment losses of financial assets measured at cost should not be reversed
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 39 Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> • Generally consistent with the corresponding parts of the new Chinese standard 	

ASBE 23 – Transfer of Financial Assets

Item	Current PRC GAAP	New Chinese Accounting Standards
Key provisions and changes	<p>For certain transactions within the scope, there are relevant accounting regulations</p> <ul style="list-style-type: none"> For sale of debt receivables or related financing transaction, different accounting treatments are required to be adopted based on whether the risks and rewards have been substantially transferred The MOF has issued “Tentative Directive on the Accounting Treatment for Securitisation of Credit Assets” (Caikuai [2005] No. 12). The principles are similar to the new standard 	<ul style="list-style-type: none"> When an entity transfers a financial asset, it should evaluate the extent to which the risks and rewards of ownership of the asset have been transferred, to determine whether the transferred asset should be derecognised <ul style="list-style-type: none"> If an entity has transferred substantially all the risks and rewards of ownership of the transferred asset, it should derecognise the transferred asset If an entity has retained substantially all the risks and rewards of ownership of the transferred asset, it should continue to recognise the transferred asset If an entity has neither transferred nor retained substantially all the risks and rewards of ownership of the transferred asset <ul style="list-style-type: none"> Where an entity has not retained control of the financial asset, it should derecognise the financial asset and recognise separately as asset or liabilities any rights and obligations created or retained in the transfer Where an entity has retained control, it should continue to recognise the financial asset to the extent of its continuing involvement in the financial asset, and recognise related liability accordingly
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 39 Financial Instruments: Recognition and Measurement	<ul style="list-style-type: none"> Generally consistent with the corresponding part of IAS 39 	

ASBE 24 – Hedging

Item	Current PRC GAAP	New Chinese Accounting Standards
Key provisions and changes	Previously not addressed	<ul style="list-style-type: none"> Provided that certain strict criteria for hedge accounting are met (such as formal designation and documentation of the hedging relationship, the hedge is highly effective), an entity can choose to adopt hedge accounting as specified in the standard (i.e., recognising the offsetting effects of fair value changes of both the hedging instrument and the hedged item in the same period’s income statement) There are three types of hedging relationships, which have different accounting treatments <ul style="list-style-type: none"> Fair value hedge Cash flow hedge Hedge of a net investment in a foreign operation

ASBE 24 – Hedging (Continued)

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 39
Financial
Instruments:
Recognition
and
Measurement

- Generally consistent with the corresponding part of IAS 39

ASBE 25 – Direct Insurance Contracts

Item
Key
provisions and
changes

Current PRC GAAP

The accounting treatments are addressed by the relevant sections of the “Accounting System for Financial Enterprises” and the “Accounting System for Insurance Enterprises”

New Chinese Accounting Standards

- Introduces the concept of insurance risk as the basis of determination and identification of insurance contracts. For contracts with both insurance risk and other risks, split accounting can be applied, unless it is impractical to separate the risk or the risks cannot be measured separately
- Classifies insurance contracts into life insurance contracts and non-life insurance contracts, which dictate different accounting treatments
- Explains the recognition and measurement of premium income
- Specifies the timing of recognition and basis of measurement of reserves for insurance contracts and introduces the concept of sufficiency tests for reserves. The sufficiency tests are required to be conducted at the end of each accounting period. If any insufficiency is identified, additional reserves should be made.
- Requires policy acquisition costs to be charged to the income statement as incurred

Equivalent IFRS/IFRS dealing with the same or similar issues

IFRS 4
Insurance
Contracts

The standard sets out some general accounting principles for insurance contracts, while the new Chinese standard deals with detailed accounting treatments for direct insurance contracts

ASBE 26 – Re-insurance Contracts		
Item	Current PRC GAAP	New Chinese Accounting Standards
Key provisions and changes	The accounting treatments are addressed by the relevant sections of the “Accounting System for Financial Enterprises” and the “Accounting System for Insurance Enterprises”	<ul style="list-style-type: none"> • Stipulates that assets, liabilities, and the relevant income and expenses generated by the ceding of re-insurance contracts should be recognised on an accrual basis • Clarifies that assets and the relevant income and expenses arising from re-insurance contracts should be recognised separately and not offset with direct insurance contracts • Clarifies that expenditure on profit commission should be recognised on an accrual basis provided it can be reliably calculated • Specifies the accounting treatment for assuming re-insurance contracts
Equivalent IFRS/IFRS dealing with the same or similar issues		
IFRS 4 Insurance Contracts	<ul style="list-style-type: none"> • The standard sets out some general accounting principles for insurance contracts, while the new Chinese standard deals with detailed accounting treatments for re-insurance contracts 	

ASBE 27 – Extraction of Petroleum and Natural Gas		
Item	Current PRC GAAP	New Chinese Accounting Standards
Key provisions and changes	No specific accounting standard or regulation	<ul style="list-style-type: none"> • Prescribes the appropriate accounting treatment for all phases of the extraction of petroleum and natural gas • Clarifies the measurement model for petroleum and gas assets. The costs of areas-of-interest, wells and related facilities should be accumulated and recognised on a historical cost basis. There are specific disclosure requirements under the standard • It requires that the successful efforts method should be adopted when accounting for expenditures on exploration • Introduces the unit of production method as one of the depreciation methods for petroleum and gas assets (wells and relevant facilities). The straight-line method is still permitted under the new standard • When certain criteria are met, a provision for dismantlement, removal and restoration costs should be made and included in the cost of assets
Equivalent IFRS/IFRS dealing with the same or similar issues		
IFRS 6 Exploration for and Evaluation of Mineral Resources	<ul style="list-style-type: none"> • This IFRS sets out the general accounting principles for the exploration and evaluation of mineral resources, while the new Chinese standard specifically addresses the industry of extraction of petroleum and natural gas and cover the accounting treatments for the business at all phases of extraction of petroleum and natural gas 	

ASBE 28 – Changes in Accounting Policies and Estimates, and Correction of Errors

Item	Current PRC GAAP	New Chinese Accounting Standards
Key changes	<ul style="list-style-type: none"> Significant accounting errors relating to prior periods should be adjusted retrospectively 	<ul style="list-style-type: none"> The term “significant accounting errors” has been changed to “prior period errors” Retrospective restatement is required for significant errors in the prior period For retrospective application and retrospective restatement the concept of impracticability has been added

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	<ul style="list-style-type: none"> Generally similar, but IAS 8 provides the hierarchy of guidance to which management can refer to when selecting accounting policies 	
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ASBE 29 – Events after the Balance Sheet Date

Item	Current PRC GAAP	New Chinese Accounting Standards
Cash dividends proposed to be distributed	Cash dividends proposed to be distributed after the balance sheet date should not be recognised as a liability at the balance sheet date. Instead, they should be presented separately under the owners’ equity	Cash dividends proposed to be distributed after the balance sheet date should not be recognised as a liability at the balance sheet date. They should be disclosed separately in the notes to the financial statements, but are not required to be presented as a separate line item under owners’ equity in the balance sheet

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 10 Events after the Balance Sheet Date	No significant differences	
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ASBE 30 – Presentation of Financial Statements

Item	Current PRC GAAP	New Chinese Accounting Standards
Components of financial statements	<ul style="list-style-type: none"> Balance sheet Income statement Cash flow statement Other supplementary statements Notes to the financial statements 	<ul style="list-style-type: none"> Balance sheet Income statement Cash flow statement Statement of changes in equity Notes to the financial statements

ASBE 30 – Presentation of Financial Statements (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Classification of assets and liabilities	Assets/liabilities are generally classified into current and non-current assets/liabilities	<ul style="list-style-type: none"> Assets/liabilities are generally classified into current and non-current assets/liabilities Financial institutions can present information in order of liquidity if it provides more reliable and relevant information to the user
Line items to be presented in the financial statements	Sets out line items to be presented separately in the financial statements	<p>Additional line items that should be presented separately in the financial statements</p> <ul style="list-style-type: none"> Balance sheet: investment properties, development expenditure, goodwill, deferred tax assets/liabilities, employee compensation payable, and those new items introduced by the standard “Recognition and Measurement of Financial Instruments” including financial assets held for trading, financial assets available for sale and held-to-maturity investments Income statement: operating income, impairment losses, gains or losses arising from changes in fair values
Minority interests	<ul style="list-style-type: none"> Presented separately from liabilities and shareholders’ equity in the consolidated balance sheet Presented as a deduction before arriving at the net profit in the consolidated income statement 	<ul style="list-style-type: none"> Presented as a separate line item under equity in the consolidated balance sheet Presented as neither income nor expense in the consolidated income statement. Net profit should be allocated between profit or loss attributable to the owners of the parent company and minority shareholders

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 1 Presentation of Financial Statements	<ul style="list-style-type: none"> It is similar to the new Chinese standard in many areas. However, there are some differences with regards to the line items presented in the financial statements IAS 1 includes provision on fair presentation, and only under extremely rare circumstances is departure from IFRS permitted to achieve a fair presentation
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ASBE 31 – Cash Flow Statement

Item	New Chinese Accounting Standards
Key changes	<ul style="list-style-type: none"> There are only limited revisions with no significant impact

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 7 Cash Flow Statement	<ul style="list-style-type: none"> For the presentation of cash flow generated from operating activities, the direct method is encouraged to be adopted, while the indirect method is also allowed. However, the new Chinese standard requires that the direct method be applied for presentation; in addition, information on reconciling the net results to cash flow from operating activities by using the indirect method should be disclosed in the notes to the financial statements
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ASBE 32 – Interim Financial Reporting

Item	New Chinese Accounting Standards
Key changes	<ul style="list-style-type: none"> • There are only limited revisions with no significant impact
Equivalent IFRS/IFRS dealing with the same or similar issues	
IAS 34 Interim Financial Reporting	<ul style="list-style-type: none"> • IAS 34 permits the presentation of condensed interim financial statements while the new Chinese standard requires the presentation of a complete set of financial statements

ASBE 33 – Consolidated Financial Statements

Item	Current PRC GAAP	New Chinese Accounting Standards
Scope of consolidation	<ul style="list-style-type: none"> • An entity should prepare consolidated financial statements if: <ul style="list-style-type: none"> – it holds more than 50% of the registered capital of an investee company or it holds 50% or less of the registered capital of an investee company but, in substance, has control over the investee company, – and it falls within the scope of entities which are required to prepare consolidated financial statements as listed below 	<ul style="list-style-type: none"> • The concept of “control” should be used to determine the scope of consolidation <ul style="list-style-type: none"> – Control refers to an entity’s power to govern the financial and operating policies of another entity so as to obtain benefits from the operating activities of another entity – Emphasises the principle of substance over form by requiring consideration of all the relevant facts and circumstances – Considers the impact of potential voting rights – Special purpose entities controlled by an entity should be consolidated
Who should prepare consolidated financial statements	<ul style="list-style-type: none"> • Entities required to prepare consolidated financial statements (according to MOF Directive Caikuai [2003] No. 10) include: <ul style="list-style-type: none"> – Entities authorised for the operation and management of state-owned assets; – Listed entities; – Foreign trade entities required to prepare consolidated financial statements; – Other entities required to prepare consolidated financial statements; and – Entities preparing consolidated financial statements for management purposes 	<ul style="list-style-type: none"> • The parent company should prepare consolidated financial statements • A parent company is an entity that has one or more subsidiaries
Subsidiaries – exempted from consolidation	<ul style="list-style-type: none"> • The control is temporary because the subsidiary is intended to be disposed in the near future • Subsidiaries subject to foreign exchange restrictions, and other restrictions from resident countries and therefore the transferring of the fund is restricted • Subsidiaries that have closed down, suspended operations, merged with other entities, declared bankruptcy or gone into liquidation • Subsidiaries with negative net assets and not a going concern • Subsidiaries with total assets, revenue, and profit all below 10% of respective group totals (not applicable to subsidiaries suffering from losses) • Subsidiaries engaged in dissimilar activities (banking and insurance sectors) 	<ul style="list-style-type: none"> • A parent company should consolidate all subsidiaries

ASBE 33 – Consolidated Financial Statements (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
Joint ventures (joint-controlled entities)	<ul style="list-style-type: none"> It requires joint ventures to be proportionately consolidated 	<ul style="list-style-type: none"> Joint controlled entities are no longer required to be proportionately consolidated; instead, the equity method is used to account for equity interests in joint ventures
Subsidiaries with negative net assets	<ul style="list-style-type: none"> In accordance with MOF Directive “Reply on the Consolidation Issues of Subsidiaries with Negative Net assets” [Caikuaihanzi (1999) No. 10], if the accumulated loss applicable to the minority shareholders in a subsidiary exceed the minority interest, the excess is allocated to “unrecognised investment losses” (a new line item in the income statement and the balance sheet). In substance, such losses are not consolidated, but the consolidated net assets are not affected 	<ul style="list-style-type: none"> If the accumulated loss applicable to the minority shareholders in a subsidiary exceeds the minority interest, the excess is allocated to minority interest to the extent that the minority shareholder has a binding obligation as specified in the articles of association or the agreement and is able to bear the loss. Otherwise, the excess is allocated against the interests of the parent

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 27 Consolidated and Separate Financial Statements	<ul style="list-style-type: none"> There are exemptions to the requirement that parent entities should prepare consolidated financial statements. If the parent entity is a subsidiary of another entity and meets certain criteria, it can be exempted from preparing consolidated financial statements Joint ventures: interest in jointly-controlled entities can be accounted for either as proportionately consolidated or by using the equity method (specified in IAS 31 “Interests in Joint Ventures”) 	
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ASBE 34 – Earnings per Share

Item	Current PRC GAAP	New Chinese Accounting Standards
Key provisions and changes	<ul style="list-style-type: none"> The existing disclosure requirements of China Securities Regulatory Commission (CSRC) require listed companies to present <ul style="list-style-type: none"> Year-end earnings per share (EPS) (based on the number of shares at the end of the period) Weighted average EPS (based on the weighted average number of shares for the year) 	<ul style="list-style-type: none"> Present in the income statement <ul style="list-style-type: none"> Basic EPS Diluted EPS Basic EPS <ul style="list-style-type: none"> Net profit attributable to shareholders of ordinary shares / the weighted average number of outstanding ordinary shares Diluted EPS <ul style="list-style-type: none"> Based on the basic EPS, adjusted by the effect of dilutive potential ordinary shares to both the numerator and denominator Dilutive potential ordinary shares, for example convertible bonds, warrants and share options

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 33 Earnings per Share	<ul style="list-style-type: none"> No significant differences. However, IAS 33 provides detailed guidance in some specific circumstances 	
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ASBE 35 – Segment Reporting		
Item	Current PRC GAAP	New Chinese Accounting Standards
Key provisions and changes	Listed companies are required to present the same amount of information for both geographical and business segments	<ul style="list-style-type: none"> • Reportable segments include business segments and geographical segments. An entity should identify reportable segments based on different risks and rewards <ul style="list-style-type: none"> – Segments are usually determined on the basis of 10% threshold of the revenue, results or assets • Different disclosure requirements under primary and secondary segment reporting formats: <ul style="list-style-type: none"> – Under primary segment reporting format: segment revenue, segment expenses, segment results, segment assets and segment liabilities, etc., should be disclosed – Under secondary segment reporting format: the requirements are simpler than those for primary segment reporting, only segment revenue and segment assets are required to be disclosed
Equivalent IFRS/IFRS dealing with the same or similar issues		
IAS 14 Segment Reporting	Generally similar, but there are some small differences in the detailed disclosure requirements for secondary segment reporting	

ASBE 36 – Related Party Disclosures		
Item	Current PRC GAAP	New Chinese Accounting Standards
Identification of related parties	If a party has the power to, directly or indirectly, control, jointly control or exercise significant influence over another party, or if two or more parties are subject to control from the same party, they are regarded as related parties	<ul style="list-style-type: none"> • Definition of related party relationships has been further expanded. If two or more parties are subject to joint control or significant influence from the same party, they are regarded as related parties
Disclosure requirements	<ul style="list-style-type: none"> • The nature of the related party relationship, and the type and details of the transactions 	<ul style="list-style-type: none"> • Further disclosure requirements have been added, including <ul style="list-style-type: none"> – Related party transactions including settlement of liabilities on behalf of the entity or by the entity on behalf of another party – Requires that the ultimate controlling party be disclosed – Requires that the amount of the bad debt provision for outstanding balances between related parties be disclosed – Disclosures that related party transactions are made on terms equivalent to those that prevail in an arm's length transactions are made only if such terms can be substantiated

ASBE 36 – Related Party Disclosures (Continued)

Item	Current PRC GAAP	New Chinese Accounting Standards
State-controlled entities	<ul style="list-style-type: none"> State-controlled entities should not be regarded as related parties simply because they are subject to common control from the state 	<ul style="list-style-type: none"> No significant differences

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 24 Related Party Disclosures	<ul style="list-style-type: none"> Two or more parties subject to joint control or significant influence from the same party are not necessarily related parties State-controlled entities are within the scope of the standard 	
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ASBE 37 – Presentation of Financial Instruments

Item	Current PRC GAAP	New Chinese Accounting Standards
Presentation	<ul style="list-style-type: none"> No specific provisions on presentation of financial instruments 	<ul style="list-style-type: none"> Financial instruments should be classified as liabilities or equity according to their substance, rather than their legal form
Convertible bonds	<ul style="list-style-type: none"> Presented as liabilities, and transferred to equity when converted to shares 	<ul style="list-style-type: none"> If the convertible bonds are compound financial instruments comprising both liability and equity components, the components should be split and accounted for separately
Disclosure	<ul style="list-style-type: none"> For financial instruments such as investments, receivables and loans, the “Accounting System for Business Enterprises” and the “Accounting System for Financial Enterprises” have prescribed some specific disclosure requirements 	<ul style="list-style-type: none"> Requires detailed disclosures, including the significance of financial instruments for an entity’s financial position and performance, and qualitative and quantitative information about the nature and extent of risks arising from financial instruments to which the entity is exposed to

Equivalent IFRS/IFRS dealing with the same or similar issues

IAS 32 Financial Instruments: Presentation and Disclosure	<ul style="list-style-type: none"> The parts on presentation are generally consistent with the corresponding part of IAS 32 	
IFRS 7 Financial Instruments: Disclosure	<ul style="list-style-type: none"> The parts on disclosure are generally consistent with IFRS 7 	

ASBE 38 – First Time Adoption of Accounting Standards for Business Enterprises

New Chinese Accounting Standards

- The standard sets out the requirements for recognition, measurement and financial reporting, when an entity adopts the New Chinese Accounting Standards for the first time
- At the date of transition, an entity should reclassify, recognise and measure all assets, liabilities and owners' equity in accordance with the New Chinese Accounting Standards and prepare an opening balance sheet
- The standard provides special transitional provisions on changes in certain accounting policies for first time adoption of the New Chinese Accounting Standards
 - Including business combinations, long term equity investments, income taxes, financial instruments, certain types of provisions
 - Retrospective application is not allowed for items not specified by this standard
- The first annual or interim financial statements under the New Chinese Accounting Standards should be prepared, presented and disclosed in accordance with the New Chinese Accounting Standards. Comparative information for the prior year should be provided
- The effect on financial statements as a result of the first-time adoption of the New Chinese Accounting Standards should be disclosed in the first annual or interim financial statements

Equivalent IFRS/IFRS dealing with the same or similar issues

IFRS 1 First Time Adoption of International Financial Reporting Standards

- Applicable to the first time adoption of IFRS. If an entity already adopted IFRS in prior years, this standard is not applicable
- Detailed transitional provisions and exemptions may differ from the new Chinese standard

Existing IFRSs that are not addressed by any specific standards under the New Chinese Accounting Standards

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	New Chinese Accounting Standards
<ul style="list-style-type: none"> • Introduces the classification of assets held for sale <ul style="list-style-type: none"> – An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use – Requires that the asset must be available for immediate sale, and its sale must be highly probable • Measurement and presentation of non-current assets (or disposal groups) held for sale <ul style="list-style-type: none"> – Measured at the lower of the carrying value and fair value less costs to sell – The non-current assets (disposal groups) are no longer depreciated – Presented separately in the balance sheet • Definition of discontinued operations <ul style="list-style-type: none"> – a component of an entity that either is classified as held for sale or has been disposed of, and this component <ul style="list-style-type: none"> (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale • Discontinued operations are required to be disclosed separately 	<ul style="list-style-type: none"> • Not addressed • The standard “Fixed Assets” requires that adjustments should be made to the net residual value of fixed assets held for sale • The standard “Presentation of Financial Statements” requires the disclosure of discontinued operations
IAS 29 Financial Reporting in Hyperinflationary Economies	New Chinese Accounting Standards
<p>Sets out the special requirements for an entity whose functional currency is the currency of a hyperinflationary economy</p>	<p>Not addressed</p>

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