



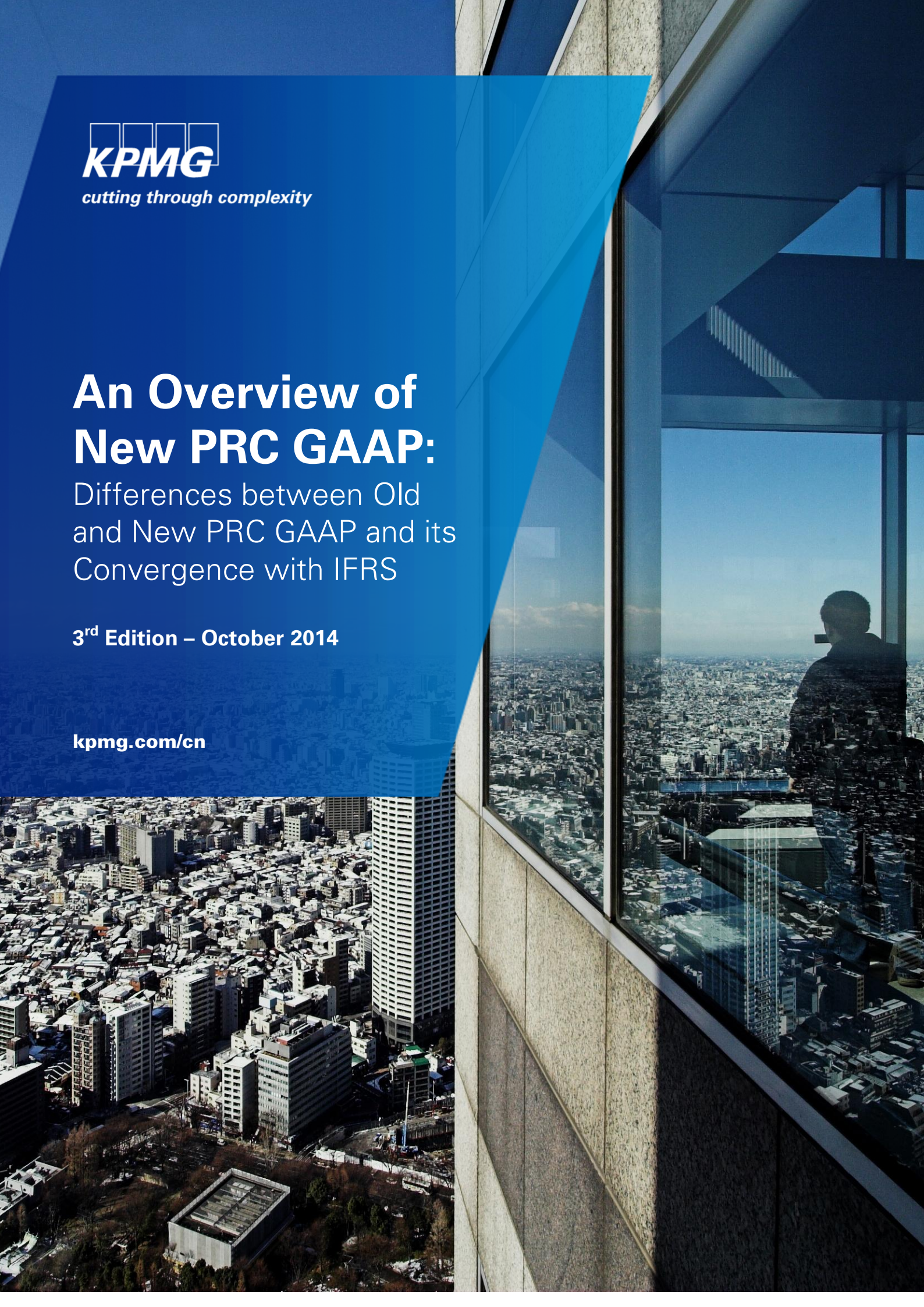
cutting through complexity

An Overview of New PRC GAAP:

Differences between Old
and New PRC GAAP and its
Convergence with IFRS

3rd Edition – October 2014

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Foreword

In February 2006, the Ministry of Finance of the People's Republic of China (MOF) issued a new set of accounting standards, commonly known as New PRC GAAP. The issuance of New PRC GAAP represents a milestone in China's economic development and the international convergence of accounting standards.

Since New PRC GAAP was adopted in 2007, its application coverage has been gradually expanding. Up to 2014, A-share listed companies, banks, insurance enterprises, securities enterprises and central state-owned enterprises have already adopted New PRC GAAP. Some medium and large-sized enterprises in certain provinces or cities have also been required to adopt New PRC GAAP. However, there are still a number of enterprises that are currently implementing Accounting Regulations for Business Enterprises and related accounting standards (commonly referred to as Old PRC GAAP), including many foreign invested enterprises (FIEs) and private enterprises. These enterprises will face the challenge of GAAP conversion. Gaining an understanding of New PRC GAAP, and the extent to which it differs from Old PRC GAAP, will be an important part of a successful conversion.

In addition, many FIEs need to prepare two sets of financial information: group reporting packages under the accounting policies of their overseas parents (commonly in accordance with IFRS) and PRC statutory financial statements. These enterprises may prefer applying group accounting policies when adopting New PRC GAAP. In order to decide on the extent to which they can adopt their group policies for the purposes of complying with New PRC GAAP, they need to have a clear understanding of the relationship between New PRC GAAP and IFRS.

This publication provides an overview of the composition and key features of New PRC GAAP, the major differences between Old and New PRC GAAP, and a number of issues that FIEs need to consider in order to meet the requirements under both New PRC GAAP and IFRS. The analysis of differences focuses on major areas and those that enterprises would generally encounter, and therefore excludes industry-specific items such as biological assets, insurance contracts and exploration/extraction of oil and gas.

This publication is intended to assist executive and finance staff in understanding the New PRC GAAP and planning their conversion programme. However, as each entity is different, it is important that each conversion programme is tailored by comparing the entity's own existing internal accounting policies and procedures formulated under Old PRC GAAP with New PRC GAAP, in order to identify the differences in sufficient detail for the enterprise to determine the potential impact on their own financial reporting systems. It is also advisable to seek professional advice, for example, when the finance staff have identified potential differences but are uncertain as to the correct treatment under New PRC GAAP.

If you have any questions about the contents of this publication or on other aspects of New PRC GAAP, or would like our assistance in helping to plan or carry out your conversion programme, please feel free to discuss with your usual KPMG contact.

This publication has been prepared based on relevant PRC accounting standards¹ and IFRS issued as of 30 September 2014 and effective for annual accounting periods ending 31 December 2014.

¹ During the first quarter of 2014, the MOF issued seven new/revised specific accounting standards regarding Long-term Equity Investments, Employee Benefits, Presentation of Financial Statements, Consolidated Financial Statements, Fair Value Measurement, Joint Arrangements, and Disclosure of Interests in Other Entities. These standards are effective from 1 July 2014. Overseas-listed companies are encouraged to apply them earlier. On the first-time adoption of the above new/revised accounting standards, some principles are required retrospective application while others required prospective application. On 20 June 2014, the MOF revised CAS 37—*Financial Instruments: Presentation and Disclosures* and required enterprises to apply it for annual periods beginning on or after 1 January 2014.

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

I New PRC GAAP: An outline and differences from Old PRC GAAP

New PRC GAAP is a system of new accounting standards and related rules which were first issued by the MOF on 15 February 2006 and have been updating and expanding.

At present, New PRC GAAP mainly consists of:

Regulation/guidance	Brief introduction
A Basic Standard	The Basic Standard prevails over other components of New PRC GAAP and sets out the principles for practical issues not specifically addressed in other components.
41 Specific Standards	Specific Standards deal with specific accounting treatments for transactions and events.
Application Guidance	Application Guidance statements clarify the contents of the specific standards, provide additional guidance on key challenging issues, and also include instructions as to the form of financial statements, chart of accounts, key illustrative journal entries, etc.
China Accounting Standards (CAS) Bulletins and other supplementary regulations	These mainly address issues identified in implementing New PRC GAAP or respond to certain developments in IFRS, providing rules that facilitate ongoing convergence with IFRS.
The Interpretation Guidance of CAS	These are published by the Accounting Regulatory Department of the MOF. They offer detailed explanations and comprehensive and specific examples for the requirements in the standards. They also cover certain improvements and amendments which facilitate ongoing convergence with IFRS.

Before the issuance of New PRC GAAP, most enterprises applied the Accounting Regulations for Business Enterprises, 16 accompanying specific standards and relevant supplementary rules, which are collectively referred to as Old PRC GAAP.

Generally, New PRC GAAP is different from Old PRC GAAP in the following ways:

1. More principle based

New PRC GAAP tends to be more principle based than Old PRC GAAP and includes implementation guidance which requires finance staff to make more judgments. For example, under Old PRC GAAP, when an exchange of non-monetary assets occurs, the cost of the assets received is measured based on the carrying amount of the assets surrendered. By contrast, New PRC GAAP states that the measurement basis should be either fair value or carrying amount depending on whether the exchange transaction has commercial substance and whether fair value can be reliably measured. The new standards set out the criteria for judging whether an exchange has commercial substance, but the specific conclusions will be up to the enterprise's judgement in light of its facts and circumstances.

2. Greater use of fair value measurement

Old PRC GAAP generally adopts the historical cost method as its measurement principle. New PRC GAAP, on the other hand, introduces more requirements for fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For example, in a business combination not involving enterprises under common control, the acquirer's cost of a business combination must include the aggregate of the fair values, at the acquisition date, of the assets transferred and liabilities incurred or assumed, in exchange for control of the acquiree. Also, financial assets held for trading are measured at fair value initially and at each subsequent reporting date.

3. Convergence with IFRS while taking into account characteristics of China's transforming market economy

Old PRC GAAP is significantly different from IFRS, but New PRC GAAP was developed with the intention of achieving convergence with IFRS. The convergence of New PRC GAAP with IFRS was acknowledged by the IASB in 2005. Since then the IASB has undertaken a number of projects to revise IFRS. According to *Roadmap of Continuous Convergence between New PRC GAAP and IFRS* issued by the MOF in April 2010, it is planned that New PRC GAAP will maintain convergence with IFRS for the foreseeable future.

At the same time, while converging with IFRS, the development of New PRC GAAP takes into account China's specific situation as a transforming market economy. Thus, this new set of standards is not a direct adoption of IFRS. For example, compared with IFRS, the reversal of impairment losses for long-term assets is not permitted, and fair value measurement is introduced from the standpoint of prudence under New PRC GAAP. Part II of this publication looks more closely at the extent to which New PRC GAAP has converged with IFRS.

4. More disclosure requirements

Compared with Old PRC GAAP, New PRC GAAP also contains more disclosure requirements in an effort to align closer with IFRS. Examples include disclosures of risk and sensitivity analyses for financial instruments, as well as the methods used to determine fair values at which transactions and events are measured. These disclosure requirements may pose significant challenges to finance staff, who will need to tailor the disclosures to reflect the enterprise's facts and circumstances.

Major differences between New PRC GAAP and Old PRC GAAP

When enterprises are transiting from Old to New PRC GAAP, one key priority is to identify the differences between the two. A sensible place to start would be by comparing existing internal accounting policies and procedures formulated under Old PRC GAAP with New PRC GAAP, as this will focus only on those differences which are relevant to the enterprise, and will help to identify these differences in sufficient detail for the enterprise to determine the potential impact on their own financial reporting systems.

In order to assist with this analysis we have set out below an overview of the major differences between New PRC GAAP and Old PRC GAAP. The analysis is based on Old PRC GAAP and New PRC GAAP issued as of 30 September 2014 and effective for annual accounting periods ending 31 December 2014. The discussion of each difference focuses on the extent to which the adoption of New PRC GAAP will require changes to be made by enterprises to the presentation of their financial statements and to the accounting policies of recognition and measurement when first adopting New PRC GAAP. Each overview is referenced to the relevant source in Old or New PRC GAAP in order to assist in further research on the requirements if they are of relevance.

The differences are grouped into financial statements level, balance sheet items, income statement items and specific issues as follows:

A Financial statements level

- A1 Presentation of financial statements
- A2 Business combinations (including goodwill)
- A3 Consolidated financial statements and investments in subsidiaries

B Balance sheet items

- B1 Inventories
- B2 Investment property
- B3 Fixed assets
- B4 Capitalisation of borrowing costs
- B5 Intangible assets
- B6 Investments in joint ventures and associates
- B7 Financial assets and financial liabilities
- B8 Impairment of assets
- B9 Contingencies
- B10 Equity instruments

C Income statement items

- C1 Revenue
- C2 Employee benefits
- C3 Share-based payment
- C4 Government grants
- C5 Income taxes
- C6 Pre-operating expenses

D Specific issues

- D1 Land use rights
- D2 Leases
- D3 Exchange of non-monetary assets
- D4 Debt restructuring
- D5 Related party disclosures
- D6 Segment reporting

Abbreviations

Examples of abbreviations used	Sources
New PRC GAAP:	
CAS 30.2	Article 2 of Accounting Standard for Business Enterprises No. 30 - Presentation of Financial Statements
CAS 16.AG.I(II)	Item 2 of section 1 of the Application Guidance of CAS 16
Item 3 of Bulletin No. 4	Item 3 of the CAS Bulletin No. 4
IG of CAS, Section 2.2.1 Chapter 21	Section 2.2.1 in chapter 21 of the Interpretation Guidance of CAS
Caikuaihan [2008] No. 60	"Notice on preparing 2008 annual reports of enterprises adopting CAS" (Caikuaihan [2008] No. 60)
Old PRC GAAP:	
ARBE Article 153	Article 153 of Accounting Regulations for Business Enterprises
"Standard—Investments" Article 7	Article 7 of Accounting Standards for Business Enterprises—Investments
"Standard—Revenue".AG.IV(III)	Item 3 of section 4 of the Application Guidance of "Standard—Revenue"
"Standard—Revenue".IG.VII(I)	Item 1 of section 7 of the Interpretation Guidance of "Standard—Revenue"
Item 3 of Q&A (2)	Item 3 of "Questions and answers on implementing ARBE and related accounting standards (2)" (Caikuai [2003] No. 10)
Caikuaizi [1997] No. 30	"Provisional regulation on the accounting treatments for acquisition of enterprises" (Caikuaizi [1997] No. 30)
Caikuaizi [1995] No. 11	"Provisional regulation on consolidated financial statements" (Caikuaizi [1995] No. 11)
IFRS:	
IFRS 3.4	Paragraph 4 of International Financial Reporting Standard No. 3 - Business Combination
IAS 1.10	Paragraph 10 of International Accounting Standard No. 1 - Presentation of Financial Statements
IAS 39.AG 8	Paragraph 8 of the Application Guidance which forms part of International Accounting Standard No. 39

A Financial Statements Level

A1 Presentation of Financial Statements

Item	Old PRC GAAP	New PRC GAAP
Components of financial statements	Financial statements and notes shall include: <ul style="list-style-type: none"> • a balance sheet; • an income statement; • a statement of profit appropriation; • a cash flow statement; and • notes. <i>ARBE Article 153 and 154</i>	New PRC GAAP is broadly the same. However, compared with Old PRC GAAP, financial statements under New PRC GAAP: <ul style="list-style-type: none"> • do not include a statement of profit appropriation; but • need to include a statement of changes in owners' equity. <i>CAS 30.2</i>
Presentation of balance sheet	<ul style="list-style-type: none"> • Assets shall be classified as current assets and non-current assets. Liabilities shall be classified as current liabilities and non-current liabilities. <i>ARBE Article 13 and 67</i> <ul style="list-style-type: none"> • The line items which should be presented in the balance sheet are specified. <i>"ARBE—Chart of Accounts and Financial Statements"</i>	<ul style="list-style-type: none"> • Under New PRC GAAP, there will be no change for most enterprises. However, for enterprises such as financial institutions that do not have a clearly identifiable operating cycle, their assets and liabilities can be presented in order of liquidity. An enterprise which has diverse operations is permitted to use a mixed basis of presentation. <i>CAS 30.16</i> <ul style="list-style-type: none"> • Under New PRC GAAP, greater analysis is required on the face of the balance sheet. For example: <ul style="list-style-type: none"> - financial assets/liabilities measured at fair value through profit or loss; - available-for-sale financial assets; - held-to-maturity investments; - non-current assets classified as held for sale; and - investment properties. <i>CAS 30.23 and 25</i>
Presentation of income statement	Expenses are classified based on their function, into <u>cost of sales from principal activities</u> , operating expenses, general and administrative expenses, financial expenses, etc. <i>ARBE Article 104 and Chart of Accounts and Financial Statements</i>	<ul style="list-style-type: none"> • Like Old PRC GAAP, expenses should be classified based on their function, but there is <u>no requirement to present principal activities separately from other operating activities</u>. <i>CAS 30.30 and 31</i> <ul style="list-style-type: none"> • Under New PRC GAAP, there are additional requirements in respect of presenting comprehensive income: <ul style="list-style-type: none"> - "other comprehensive income" should be presented separately from profit or loss; and - an amount for "total comprehensive income" should be presented, being the sum of profit or loss and other comprehensive income. <i>CAS 30.31, 32 and 40</i>

A2 Business Combinations (including Goodwill)

A2.1 Business Combinations involving Enterprises under Common Control

Item	Old PRC GAAP	New PRC GAAP
Fundamental principles	<p>Old PRC GAAP provides guidance for purchase method only. (see Item A2.2 below) However, in practice, some enterprises adopt a pooling of interests treatment, which is similar to the requirements of New PRC GAAP.</p> <p><i>Caikuaizi [1997] No. 30 "Standard—Investments"</i></p>	<p>Under New PRC GAAP, business combinations involving enterprises under common control shall be accounted for using a method of accounting similar to the pooling of interests method. Under this method, the acquirer:</p> <ul style="list-style-type: none"> • does not recognise any gain or loss or goodwill arising from the business combination; • recognises assets and liabilities at their carrying values as stated in the consolidated financial statements of the ultimate controlling party; • adjusts any difference between the carrying value of the net assets acquired and the carrying value of the consideration paid by the acquirer in capital reserves (if the difference is a debit and exceeds capital reserves, the excess is charged against retained earnings); and • adjusts the opening balances of the consolidated balance sheet and comparative figures of the prior periods, as if the combining parties had been in existence at their current status from the date when the ultimate controlling party first obtained control. <p><i>CAS 20.6 and 7 IG of CAS, Section 2.1 Chapter 21 Item 2 of Bulletin No. 6</i></p>

A2 Business Combinations (including Goodwill) (continued)

A2.2 Business Combinations not involving Enterprises under Common Control

Item	Old PRC GAAP	New PRC GAAP
Fundamental principles	<p>Shall be accounted for using the purchase method.</p> <p><i>Caikuaizi [1997] No. 30</i> "Standard—Investments"</p>	<p>Like Old PRC GAAP in principle.</p> <p>CAS 20</p>
Cost of a business combination	<p>Acquirer's cost of a business combination shall be determined using different principles depending on the nature of consideration and the legal form of the business combination (e.g. whether the business combination results in the acquirer obtaining an investment in a subsidiary). For example:</p> <ul style="list-style-type: none"> • if the consideration is in cash, the acquirer's cost is the actual purchase price payable; • if the acquirer obtains the acquiree as its subsidiary in exchange for non-monetary assets or through a debt restructuring, the acquirer's cost is determined in accordance with <i>Accounting Standard for Business Enterprises—Non-monetary Transactions</i> or <i>Accounting Standard for Business Enterprises—Debt Restructuring</i> respectively . <p><i>Caikuaizi [1997] No. 30</i> "Standard—Investments" Article 7</p>	<p>Unlike Old PRC GAAP, the acquirer's cost of a business combination shall generally be determined at the fair values of the assets given, liabilities assumed, and equity securities issued by the acquirer in exchange for the control of the acquiree, as measured at the acquisition date.</p> <p>CAS 20.11 Item 1 and 3 of Bulletin No. 4</p>
Acquiree's identifiable assets and liabilities	<p>The acquirer shall recognise the acquiree's assets and liabilities at fair values or carrying amounts in accordance with relevant regulations.</p> <p><i>Caikuaizi [1997] No. 30</i> "Questions and answers regarding accounting issues for companies limited by shares" (<i>Caikuaizi [1998] No. 16</i>) "Standard—Investments"</p>	<p>Unlike Old PRC GAAP, the acquirer shall recognise all the acquiree's identifiable assets and liabilities at fair values. These assets and liabilities may include ones not recognised by the acquiree at the time of the business combination.</p> <p>CAS 20.14</p>
Non-controlling interest recognised at acquisition date	<p>Recognised at the non-controlling shareholders' proportionate interest in the <u>carrying value</u> of the acquiree's identifiable assets and liabilities.</p> <p><i>Caikuaizi [1995] No. 11</i></p>	<p>Recognised at the non-controlling shareholders' proportionate interest in the <u>fair value</u> of the acquiree's identifiable assets and liabilities.</p> <p>CAS 20.13 and 15</p>

A2 Business Combinations (including Goodwill) (continued)

A2.2 Business Combinations not involving Enterprises under Common Control (continued)

Item	Old PRC GAAP	New PRC GAAP
Difference between the cost of a business combination and the acquirer's interests in the acquiree's identifiable net assets	<ul style="list-style-type: none"> • For an acquisition, in the case that the initial investment cost <i>exceeds</i> the acquirer's interest in the acquiree's net assets, the difference shall be recognised as equity investment differences and amortised over a specified period. • For a merger, in the case that the initial investment cost <i>exceeds</i> the acquirer's interest in the acquiree's net assets, the difference shall be recognised as goodwill and amortised over a specified period. <p><i>Caikuaizi [1995] No. 11</i> <i>Caikuaizi [1997] No. 30</i> <i>"Standard—Investments" Article 8</i></p> <ul style="list-style-type: none"> • For an acquisition, in the case that the initial investment cost is <i>less</i> than the acquirer's interest in the acquiree's net assets, the difference shall be recognised in capital reserve. • For a merger, the situation in which the initial investment cost is <i>less</i> than the acquirer's interest in the acquiree's net assets is not addressed. <p><i>Caikuaizi [1997] No. 30</i> <i>"Standard—Investments" Article 8</i></p>	<ul style="list-style-type: none"> • Unlike Old PRC GAAP, any <i>excess</i> of the cost of a business combination over the acquirer's interest in the <u>fair value</u> of the acquiree's identifiable net assets shall be recognised as goodwill. After initial recognition, goodwill shall be measured at cost less accumulated impairment losses and cannot be amortised. <p><i>CAS 20.13</i></p> <ul style="list-style-type: none"> • Unlike Old PRC GAAP, in the case that the cost of the business combination is less than the acquirer's interest in the <u>fair value</u> of the acquiree's identifiable net assets, the difference shall be recognised in <u>profit or loss</u> in the period of the acquisition. <p><i>CAS 20.13</i></p>

A3 Consolidated Financial Statements and Investments in Subsidiaries

A3.1 Consolidated Financial Statements

Item	Old PRC GAAP	New PRC GAAP
Situations in which a parent company prepares consolidated financial statements	<p>Only certain enterprises, such as listed enterprises, are required to prepare consolidated financial statements. Other enterprises may elect to prepare consolidated financial statements at the discretion of the enterprise's management.</p> <p><i>Item 3 of Q&A (2)</i></p>	<p>Unlike Old PRC GAAP, all parents shall prepare consolidated financial statements, except for qualified investment entities (see below).</p> <p>CAS 33.4</p>
Scope of consolidation	<ul style="list-style-type: none"> • The consolidated financial statements should include: (a) those entities where the enterprise owns more than 50% of the investee's equity interest; and (b) those entities where the enterprise holds 50% or less of the investee's equity interest but, in substance, has power to control the investee. <p><i>Caikuaizi [1995] No. 11 Article 2</i></p> <ul style="list-style-type: none"> • The following entities which meet either condition (a) or (b) above may be excluded from the scope of consolidation: <ul style="list-style-type: none"> - entities that will be disposed of within a short period; - entities that operate under restrictions on foreign exchange; - entities that operate in special industries (e.g. banking and insurance industries); and - in other situations stipulated by regulations. <p><i>Caikuaizi [1995] No. 11 Article 2</i> <i>"Reply on the questions relating to the scope of consolidated financial statements"</i> <i>(Caikuaierzi [1996] No. 2) Article 2</i></p>	<ul style="list-style-type: none"> • Unlike Old PRC GAAP, the scope of consolidated financial statements shall be determined on the basis of control. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. <p>CAS 33.7</p> <ul style="list-style-type: none"> • Unlike Old PRC GAAP, all controlled entities shall be consolidated under New PRC GAAP. However, if the parent is an investment entity, it shall only consolidate the subsidiaries that provide investment-related services and shall not consolidate other subsidiaries. <p>CAS 33.21</p>
Consolidation procedures	<ul style="list-style-type: none"> • Adopt uniform accounting policies; • Adopt uniform accounting periods; • Eliminate the effect of intra group transactions. <p><i>Caikuaizi [1995] No. 11 Article 5, 6, 9, 10 and 11</i></p>	<p>In addition to the procedures required by Old PRC GAAP, New PRC GAAP requires fair value adjustments, i.e. the subsidiary's financial information should be adjusted to reflect the fair values of the subsidiary's identifiable assets, liabilities and contingent liabilities as recognised by the acquirer at the acquisition date.</p> <p>CAS 20.15 CAS 33.Chapter 3</p>

A3 Consolidated Financial Statements and Investments in Subsidiaries (continued)

A3.1 Consolidated Financial Statements (continued)

Item	Old PRC GAAP	New PRC GAAP
Non-controlling interests in consolidated balance sheet and consolidated income statement	<ul style="list-style-type: none"> Non-controlling interests in the consolidated balance sheet are presented separately <u>between</u> liabilities and equity. Non-controlling interests are presented in the consolidated income statement as a deduction before arriving at net profit for the year. <p><i>Caikuaizi [1995] No. 11 Article 9(5) and 10(5)</i></p>	<ul style="list-style-type: none"> Unlike Old PRC GAAP, non-controlling interests in the consolidated balance sheet are presented separately <u>within</u> owners' equity. Unlike Old PRC GAAP, non-controlling interests are not deducted in arriving at net profit in the consolidated income statement. Instead, the amount attributable to non-controlling interests is presented separately after net profit for the year. <p><i>CAS 33.31 and 35</i></p>
Allocation of losses arising from a non-wholly owned subsidiary	<p>Losses incurred by a subsidiary shall be allocated against the equity attributable to the parent and the non-controlling interests based on their respective proportionate shares. If the amount of losses allocated to the parent exceeds the parent's investment in that subsidiary, the excess shall be presented as a separate line item entitled "<u>unrecognised investment losses</u>" within equity in the consolidated balance sheet.</p> <p><i>"Reply to the question on the consolidation of an insolvent company's financial statements" (Caikuaihanzi [1999] No. 10)</i></p>	<p>Unlike Old PRC GAAP, the excess losses are not presented as a separate line item entitled "unrecognised investment losses" in the consolidated balance sheet. Losses are allocated to the non-controlling shareholders even if this results in attributing a debit balance to them.</p> <p><i>CAS 33.37</i></p>
Investments in joint ventures	<p>Use proportionate consolidation method.</p> <p><i>ARBE Article 158</i></p>	<p>Use equity method unless classified as held for sale.</p> <p><i>CAS 2.AG.VI(III)</i></p>

A3 Consolidated Financial Statements and Investments in Subsidiaries (continued)

A3.2 Investments in Subsidiaries (Separate Financial Statements)

Item	Old PRC GAAP	New PRC GAAP
Initial measurement	<p>Irrespective of whether a subsidiary is acquired through a business combination or not, the cost of the investment shall be determined using the following principles:</p> <ul style="list-style-type: none"> • The cost of the investment is the total consideration paid or payable. • If an investment is acquired in exchange for non-monetary assets or through a debt restructuring, its cost shall be determined in accordance with <i>Accounting Standard for Business Enterprises—Non-monetary Transactions</i> or <i>Accounting Standard for Business Enterprises—Debt Restructuring</i> respectively. <p style="text-align: right;"><i>“Standard—Investments” Article 7</i></p>	<p>Unlike Old PRC GAAP, the cost of the investment shall be determined using different principles based on whether the subsidiary was acquired through a business combination or not and, in the case of a business combination, whether the transaction involved enterprises under common control:</p> <ul style="list-style-type: none"> • For a subsidiary acquired through a business combination involving enterprises under common control: <ul style="list-style-type: none"> - the initial investment cost shall be the acquirer’s share of the carrying value of the acquiree’s equity in the consolidated financial statements of the ultimate controlling party at the combination date. - the difference between the initial investment cost and carrying value of the consideration payable by the acquirer shall be adjusted in capital reserves (if the difference is a debit and exceeds capital reserves, then the excess should be charged against retained earnings). • For a subsidiary acquired through a business combination not involving enterprises under common control, the initial investment cost shall generally be determined based on the fair value of the consideration payable by the acquirer at the acquisition date. • The initial investment cost of a subsidiary obtained otherwise than through a business combination shall be determined using different principles depending on the nature of consideration: <ul style="list-style-type: none"> - for a subsidiary obtained by paying cash, the initial investment cost shall be the actual purchase price payable; - for a subsidiary obtained by the issue of equity securities, the initial investment cost shall be the fair value of the securities issued; - for a subsidiary obtained through a debt restructuring transaction or through an exchange of non-monetary assets, the initial investment cost shall be determined in accordance with <i>CAS No. 12—Debt Restructurings</i> or <i>CAS No. 7—Exchange of Non-Monetary Assets</i> respectively. <p style="text-align: right;"><i>CAS 2.5 and 6</i> <i>CAS 20.11</i></p>
Subsequent Measurement	<p>Use equity method.</p> <p style="text-align: right;"><i>“Standard—Investments” Article 18</i></p>	<p>Unlike Old PRC GAAP, the cost method shall be used, except for subsidiaries held by an investment entity that are measured at fair value.</p> <p style="text-align: right;"><i>CAS 2.3 and 7</i></p>

B Balance Sheet Items

B1 Inventories

Item	Old PRC GAAP	New PRC GAAP
Method used to assign the actual cost of inventories	<ul style="list-style-type: none"> • First-in-first-out method; • Moving average method; • Weighted average method; • Specific identification method; • <u>Last-in-first-out method</u>. <p><i>"Standard—Inventories" Article 17</i></p>	<p>The last-in-first-out method is not acceptable under New PRC GAAP.</p> <p><i>CAS 1.14</i> <i>IG of CAS, Section 3.1 Chapter 2</i></p>

B2 Investment Property

Item	Old PRC GAAP	New PRC GAAP
Whether identified as a specific category of assets	No specific standard on investment property, and the related assets are generally recognised as fixed assets, intangible assets, etc.	<ul style="list-style-type: none"> • New PRC GAAP includes a specific standard covering the recognition, measurement and disclosure requirements for investment property. • Investment property is defined as property held to earn rentals or for capital appreciation or both. <p><i>CAS 3.2</i></p>
Subsequent Measurement	<ul style="list-style-type: none"> • Under Old PRC GAAP, only the cost model is permitted. • The fair value model is not permitted. <p><i>"Standard—Fixed assets"</i> <i>"Standard—Intangible assets"</i></p>	<ul style="list-style-type: none"> • Under New PRC GAAP, entities shall use the cost model, unless there is clear evidence that the fair value of an investment property can be reliably determined on a continuing basis, in which case the <u>fair value model</u> may (but need not) be used for that property. • Both of the following conditions need to be met if the fair value model is to be used: <ul style="list-style-type: none"> - there is an active property market in the location in which the investment property is situated; and - the enterprise can obtain market prices and other relevant information regarding the same or similar types of properties from the property market, so as to reasonably estimate the fair value of the investment property. • An entity should generally only use one measurement model for its portfolio of investment properties, rather than using two models at the same time, except in rare situations. <p><i>CAS 3.9 and 10</i> <i>CAS 3.AG. II</i> <i>IG of CAS, Section 2.2 Chapter 4</i></p>

B3 Fixed Assets

Item	Old PRC GAAP	New PRC GAAP
Definition	<p>Fixed assets are tangible assets that:</p> <ul style="list-style-type: none"> • are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; • are expected to be used during more than one year; and • <u>have a relatively high unit price.</u> <p><i>“Standard—Fixed assets” Article 3</i></p>	<p>The criteria of “having a relatively high unit price” is not included in New PRC GAAP.</p> <p>CAS 4.3</p>
Cost of dismantling the item or restoring the site	<p>The cost of dismantling the item or restoring the site is considered to be included in the residual value of fixed assets.</p> <p><i>“Standard—Fixed assets”.IG. V (I)</i></p>	<ul style="list-style-type: none"> • Unlike Old PRC GAAP, the cost of dismantling the item or restoring the site shall be included in the initial cost of fixed assets and a corresponding liability should be recognised. • The cost of dismantling the item or restoring the site that is included in the cost of fixed assets shall be recognised at its present value. <p>CAS 4.13 <i>IG of CAS, Section 2.4 Chapter 5</i></p>
Deferred payment for a fixed asset	<p>Measured at the <u>total amount payable.</u></p> <p><i>“Standard—Fixed assets” Article 7 and 8</i></p>	<ul style="list-style-type: none"> • Unlike Old PRC GAAP, the cost of a fixed asset shall be measured at the <u>cash price equivalent</u> if payment is deferred beyond normal credit terms, such that the arrangement is in substance a financing arrangement. • The difference between the total amount payable and the cash price equivalent shall be recognised in profit or loss over the period of credit as interest expense unless it is capitalised in accordance with <i>CAS No. 17—Borrowing Costs.</i> <p>CAS 4.8</p>

B4 Capitalisation of Borrowing Costs

Item	Old PRC GAAP	New PRC GAAP
Scope of qualifying assets	<ul style="list-style-type: none"> Fixed assets; Real estate developed by property developer. <p><i>"Standard—Borrowing costs".AG. IV (I)</i> <i>"Standard—Borrowing costs".IG. IV</i></p>	<p>In addition to the types of assets stipulated by Old PRC GAAP, the following may be qualifying assets under New PRC GAAP:</p> <ul style="list-style-type: none"> Investment property; Inventories; Intangible assets; Construction contract costs. <p>CAS 17.4 <i>IG of CAS, Section 2 Chapter 18</i></p>
Borrowing costs eligible for capitalisation	<ul style="list-style-type: none"> Interest from specific borrowing, amortisation of any discount or premium and ancillary costs from specific borrowing. Exchange differences arising from the principal and interest of a foreign currency specific borrowing. <p><i>"Standard—Borrowing costs" Article 4, 5 and 13</i></p>	<p>In addition to the costs stipulated by Old PRC GAAP, the following shall be eligible for capitalisation under New PRC GAAP:</p> <ul style="list-style-type: none"> interest from general borrowings, amortisation of any discount or premium and ancillary costs from general borrowings; and finance charges related to finance leases. <p>CAS 17.6, 9 and 10 CAS 17.AG. III <i>Item 3 of Bulletin No. 1</i></p>

B5 Intangible Assets

Item	Old PRC GAAP	New PRC GAAP
Internal research and development projects	<ul style="list-style-type: none"> Research and development expenditures incurred before reaching a successful state in an internal project are recognised as expenses in the period in which they are incurred. Expenditure (e.g. registration fee and legal fee) incurred for legal application of obtaining the asset (e.g. the patent, license) are recognised as an intangible asset. <p><i>"Standard—Intangible asset" Article 13</i></p>	<p>Unlike Old PRC GAAP, internal research and development projects are regarded as having a research phase and a development phase:</p> <ul style="list-style-type: none"> expenditure incurred during the research phase shall be recognised in profit or loss in the period in which it is incurred; expenditure incurred during the development phase shall be capitalised as an intangible asset when certain conditions are met. <p>CAS 6.8 and 9</p>
Deferred payment for an intangible asset	<p>Measured at total amount payable.</p> <p><i>"Standard—Intangible asset" Article 8</i></p>	<ul style="list-style-type: none"> Unlike Old PRC GAAP, the cost of an intangible asset shall be measured at the <u>cash price equivalent</u> if payment is deferred beyond normal credit terms, such that the arrangement is in substance a financing arrangement. Any difference between the total amount payable and the cash price equivalent shall be recognised in profit or loss over the period of credit as interest expense unless it is capitalised in accordance with <i>CAS No. 17—Borrowing Costs</i>. <p>CAS 6.12</p>

B5 Intangible Assets (continued)

Item	Old PRC GAAP	New PRC GAAP
Intangible assets contributed by investors	<p>Generally the intangible asset is initially recognised at the amount determined in accordance with the value agreed upon by all investors.</p> <p><i>“Standard—Intangible asset” Article 10</i> <i>ARBE Article 44</i></p>	<p>Under normal circumstances, the treatment would be the same as under Old PRC GAAP. However, the intangible asset shall be measured at fair value where the value stipulated in the contract or agreement is not fair.</p> <p><i>CAS 6.14</i> <i>IG of CAS, Section 2.1.2 Chapter 7</i></p>
Amortisation of intangible assets with finite useful lives	<ul style="list-style-type: none"> • The intangible asset should be amortised evenly over the asset’s expected useful life (straight-line method). • The amortisation charge is recognised in profit or loss. • The residual value shall be assumed to be zero. <p><i>“Standard—Intangible asset” Article 15</i> <i>“Standard—Intangible asset”.AG. III (IV)</i></p>	<ul style="list-style-type: none"> • Unlike Old PRC GAAP, the carrying value of the intangible asset shall be allocated on a systematic and rational basis over the asset’s useful life – this basis could be other than the straight-line basis. • Unlike Old PRC GAAP, the amortisation charge may be included in the cost of corresponding assets. If not so included, it would be recognised in profit or loss. • Unlike Old PRC GAAP, the residual value can be assumed to be other than zero if certain requirements are met. <p><i>CAS 6.17 and 18</i> <i>CAS 6.AG. V</i></p>
Amortisation of intangible assets with indefinite useful lives	<p>The intangible asset should be amortised over its expected useful life. If the beneficial period is not stipulated in the relevant contract and laws, the amortisation period shall not exceed 10 years.</p> <p><i>“Standard—Intangible asset” Article 15</i></p>	<p>Unlike Old PRC GAAP, intangible assets with indefinite useful lives shall not be amortised.</p> <p><i>CAS 6.19</i></p>
Review of useful life assessment	<p>No explicit requirement.</p>	<ul style="list-style-type: none"> • The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. • The useful life of an intangible asset with an indefinite useful life shall be reviewed each period. <p><i>CAS 6.21</i></p>

B6 Investments in Joint Ventures and Associates

Item	Old PRC GAAP	New PRC GAAP
Classification and accounting treatments for joint arrangements	<p>Old PRC GAAP only provides guidance on the accounting treatments for investments in joint ventures. However, there is no specific guidance on the accounting treatments for joint operations.</p> <p><i>“Standard—Investments”</i></p>	<p>Unlike Old PRC GAAP, the definition of a joint arrangement is specified. Under New PRC GAAP, a joint arrangement is classified as either a joint venture or a joint operation. Specific guidance is provided for the accounting treatments for each category.</p> <p>CAS 40</p>
Adjustment to the initial investment cost and requirements in respect of the equity method for investments in joint ventures and associates	<ul style="list-style-type: none"> • If the initial investment cost exceeds the investor’s <u>share of owners’ equity</u> of the investee, the difference shall be recognised as “equity investment differences” and amortised over the relevant periods in profit or loss. • If the initial investment cost is less than the investor’s <u>share of owners’ equity</u> of the investee, the difference shall be recognised in <u>capital reserve</u> and the cost of the long-term equity investment shall be adjusted accordingly. • After the date of acquisition, the investor shall recognise its share of the investee’s profit or loss as investment income or loss, and adjust the carrying amount of the investment accordingly. <p>- No requirement to make fair value adjustments.</p> <p>- No requirement to eliminate intra-group transactions.</p>	<ul style="list-style-type: none"> • Unlike Old PRC GAAP, there is no separate recognition of an excess in the initial investment cost over the investor’s interest in <u>the fair value of the investee’s identifiable net assets</u> at the acquisition date, and such differences cannot be amortised. • Unlike Old PRC GAAP, if the initial investment cost is less than the investor’s interest acquired, the difference shall be recognised in <u>profit or loss</u>. Furthermore, unlike Old PRC GAAP, this difference is measured with reference to <u>the fair value of the investee’s identifiable net assets</u> at the acquisition date. • With respect to accounting after the date of acquisition, New PRC GAAP is similar to Old PRC GAAP in principle. However, unlike Old PRC GAAP, when the investee prepares consolidated financial statements, such consolidated financial statements are taken into account in applying the equity method. Also when determining the investor’s share of the investee’s profit or loss, the following adjustments shall be made under New PRC GAAP: <ul style="list-style-type: none"> - the investor shall recognise its share of the investee’s net profit or loss after making appropriate adjustments based on the <u>fair value</u> of the investee’s identifiable assets at the acquisition date; - profit or loss resulting from transactions between the investor and an associate or joint venture shall be eliminated to the extent of the investor’s interest in the investee, before recognising the investment income or loss. If losses resulting from transactions between the investor and the investee are regarded as impairment losses in accordance with <i>CAS No. 8—Impairment of Assets</i>, the amount shall be fully recognised;

B6 Investments in Joint Ventures and Associates (continued)

Item	Old PRC GAAP	New PRC GAAP
Adjustment to the initial investment cost and requirements in respect of the equity method (continued)	<ul style="list-style-type: none"> - No requirement to use uniform accounting policies. - The investor recognises the net losses of the investee to the extent that the carrying amount of the investment is reduced to zero. <p><i>“Standard—Investments” Article 8 and 19 Item 11 of Q&A (2)</i></p>	<ul style="list-style-type: none"> - if an investee uses accounting policies other than those of the investor, adjustments shall be made to conform the accounting policies in investee’s financial information to those of the investor, and the investment income or loss shall be recognised based on the adjusted financial information; - the investor recognises the net losses of the investee to the extent that the carrying amount of the long-term equity investment, together with <u>any long-term interests that in substance form part of the investor’s net investment in the investee</u>, is reduced to zero, unless the investor has incurred obligations to fund additional losses. <p>CAS 2.10~13</p>

B7 Financial Assets and Financial Liabilities

Item	Old PRC GAAP	New PRC GAAP
Classification	<p>According to the nature of assets or liabilities:</p> <ul style="list-style-type: none"> • Financial assets are generally classified as debt investments, equity investments, receivables, etc. These are also identified as long-term or short-term according to their holding periods. • Financial liabilities are generally classified as debentures payable, accounts payable, etc. <p><i>ARBE Article 13, 68 and 71</i></p>	<p>Unlike Old PRC GAAP, an enterprise classifies financial assets and financial liabilities into different categories based on the purpose of holding the assets or assuming the liabilities, as well as the specific contract terms:</p> <ul style="list-style-type: none"> • Financial assets are classified into four categories: <ul style="list-style-type: none"> - financial assets at fair value through profit or loss; - held-to-maturity investments; - loans and receivables; and - available-for-sale financial assets. • Financial liabilities are classified into two categories: <ul style="list-style-type: none"> - financial liabilities at fair value through profit or loss; and - other financial liabilities. <p>CAS 22.7 and 8</p>

B7 Financial Assets and Financial Liabilities (continued)

Item	Old PRC GAAP	New PRC GAAP
<p>Basic principles for measurement</p>	<p>Financial assets and liabilities are measured based on historical cost.</p> <p><i>ARBE Chapter 2 and 3</i></p>	<ul style="list-style-type: none"> • Unlike Old PRC GAAP, financial assets are measured as follows: <ul style="list-style-type: none"> - Financial assets classified as at fair value through profit or loss shall be measured at fair values, and changes therein are recognised in profit or loss. - Available-for-sale financial assets are generally measured at their fair values, and changes therein (except for impairment losses and foreign exchange gains and losses from monetary financial assets) are initially recognised in capital reserve; and then removed from equity to profit or loss when the investment is derecognised. Impairment losses and foreign exchange gains and losses from monetary financial assets are recognised in profit or loss when they arise. - Held-to-maturity investments and loans and receivables shall be measured at amortised cost using the effective interest method. • Unlike Old PRC GAAP, financial liabilities are measured as follows: <ul style="list-style-type: none"> - Financial liabilities classified as at fair value through profit or loss shall be measured at fair values, and changes therein are recognised in profit or loss. - Other financial liabilities shall be measured at amortised cost using the effective interest method. <p><i>CAS 22.32, 33 and 38</i></p>
<p>Disclosure of risks</p>	<p>No such requirement.</p>	<p>For risks to which financial instruments are exposed (including credit risk, liquidity risk, interest rate risk and currency risk), an enterprise shall disclose detailed information, including but not limited to risk analysis and sensitivity analysis.</p> <p><i>CAS 37.61~74</i></p>

B8 Impairment of Assets (including Long-term Non-Financial Assets Measured at Historical Cost, such as Fixed Assets and Intangible Assets)

Item	Old PRC GAAP	New PRC GAAP
Frequency of test for impairment	<p>An enterprise shall examine its long-term assets at the end of each period, to assess whether there is any indication that the assets may be impaired. If any such indication exists, the enterprise shall calculate the recoverable amount of the asset to determine whether it is impaired.</p> <p><i>ARBE Article 56</i></p>	<p>Like Old PRC GAAP, except for the following two requirements:</p> <ul style="list-style-type: none"> • <u>Goodwill arising in a business combination and intangible assets with indefinite useful lives</u> shall be tested for impairment at each financial year end irrespective of whether there is any indication that the asset may be impaired. • An intangible asset not yet available for use shall be tested for impairment annually. <p><i>CAS 8.4 and 6</i> <i>IG of CAS, Section 1 Chapter 9</i></p>
Measurement basis of impairment of assets	<p>Impairment shall be provided for at the individual asset level.</p> <p><i>ARBE Article 56</i> <i>"Standard—Fixed assets" Article 27</i> <i>"Standard—Intangible assets" Article 16</i></p>	<p>Unlike Old PRC GAAP, if it is not possible to test for impairment at the individual asset level, an enterprise shall provide for impairments of <u>the asset group</u>* to which the asset belongs. Once an asset group is identified, it shall be identified consistently from period to period and its constituents shall not be changed arbitrarily.</p> <p>* Under New PRC GAAP, an "asset group" is the smallest identifiable group of assets that generates cash inflows which are largely independent of the cash inflows from other assets or groups of assets. The concept of "asset group" is therefore the same as "cash-generating unit" under IFRS.</p> <p><i>CAS 8.18</i> <i>IG of CAS, Section 4 Chapter 9</i></p>
Estimation of recoverable amount	<p>No detailed implementation guidance is provided.</p>	<p>Detailed implementation guidance is provided.</p> <p><i>CAS 8.6~14</i></p>
Impairment of corporate assets and goodwill	<p>No explicit guidance.</p>	<ul style="list-style-type: none"> • Impairment tests for corporate assets and goodwill shall be performed in conjunction with the asset groups or sets of asset groups to which they are attributable. • Detailed implementation guidance is provided. <p><i>CAS 8.21~25</i></p>
Reversal of an impairment loss	<p>When there are indications that the factors which contributed to an impairment loss for an asset being recognised in prior periods have changed, resulting in the recoverable amount of the asset becoming greater than its carrying amount, the impairment loss recognised in prior periods should be reversed.</p> <p><i>ARBE Article 62</i> <i>"Standard—Fixed assets" Article 30</i> <i>"Standard—Intangible assets" Article 17</i></p>	<p>Unlike Old PRC GAAP, once an impairment loss is recognised, it <u>shall not be reversed</u> in a subsequent period.</p> <p><i>CAS 8.17</i></p>

B9 Contingencies

Item	Old PRC GAAP	New PRC GAAP
Onerous executory contracts	<p>Old PRC GAAP includes recognition principles in respect of provisions. However, there is no specific guidance on the accounting treatment for an onerous executory contract.</p> <p><i>“Standard —Contingencies”</i></p>	<p>New PRC GAAP is similar to the criteria for recognition of a provision under Old PRC GAAP. In addition, New PRC GAAP provides explicit guidance on the accounting for onerous executory contracts, such that a provision shall be recognised when an executory contract becomes an onerous contract and the obligation arising under the onerous contract satisfies certain requirements.</p> <p><i>CAS 13.8</i></p>
Restructuring costs	<p>Old PRC GAAP includes recognition principles in respect of provisions. However, there is no specific guidance on the accounting treatment for restructuring costs.</p> <p><i>“Standard —Contingencies”</i></p>	<p>The criteria for recognition of a provision under New PRC GAAP is similar to that under Old PRC GAAP. In addition, New PRC GAAP provides explicit guidance on the accounting for restructuring costs, such that a provision shall be recognised when an obligation to restructure that is incurred by an enterprise satisfies certain requirements.</p> <p><i>CAS 13.10</i></p>

B10 Equity Instruments

Item	Old PRC GAAP	New PRC GAAP
<p>Recognition criteria for equity instruments</p>	<p>Old PRC GAAP clarifies the components of equity by listing them. However, there is no overall principle for the classification of equity instruments.</p> <p><i>ARBE Article 79~83</i></p>	<p>Unlike Old PRC GAAP, New PRC GAAP provides the following requirements for the classification of equity instruments:</p> <p>A financial instrument is classified as an equity instrument if it evidences a residual interest in the assets of an entity after deducting all of its liabilities. On this basis, the instrument is an equity instrument if, and only if, both of the following conditions are met:</p> <ul style="list-style-type: none"> • the instrument includes no contractual obligation to deliver cash or another financial asset to another enterprise, nor to exchange financial assets or financial liabilities with another enterprise under conditions that are potentially unfavourable to the issuer; and • the instrument will or may be settled in the issuer’s own equity instruments in the future, and: <ul style="list-style-type: none"> - is a non-derivative, which includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or - is a derivative that will be settled only by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the enterprise’s own equity instruments for a fixed amount of any currency are equity instruments if the enterprise offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. Also, for these purposes, the issuer’s own equity instruments do not include puttable instruments that are classified as equity instruments, or instruments that impose an obligation on the enterprise to deliver to another enterprise a pro rata share of the net assets of the enterprise only on liquidation but are classified as equity instruments, or instruments that are contracts for the future receipt or delivery of the issuer’s own equity instruments. <p><i>CAS 22.58</i> <i>CAS 37.8 and 9</i></p>

C Income Statement Items

C1 Revenue

Item	Old PRC GAAP	New PRC GAAP
Principles of measurement	Revenue from the sale of goods or rendering of services shall generally be recognised at the amount stipulated in the signed contract or at the amount agreed by both parties. <i>"Standard—Revenue" Article 6 and 13</i>	The principles are similar to Old PRC GAAP in general, except that if the contract price (received or receivable amount) is not at fair value. In such cases, the revenue shall be recognised at the fair value of the goods delivered or service rendered. <i>CAS 14.5 and 13 IG of CAS, Section 2.1 Chapter 15</i>
Deferral of consideration receivable under contract or agreement	Revenue from instalment sales is usually recognised in instalments at the collection dates specified in the contract. Revenue is not recognised at the fair value of consideration. <i>"Standard—Revenue".AG. IV (III) "Standard—Revenue".IG. VII (I)</i>	<ul style="list-style-type: none"> • Unlike Old PRC GAAP, the revenue shall be recognised at <u>the fair value</u> of the consideration received or receivable. • The difference between the nominal amount of the consideration and its fair value shall be amortised over the period of the contract or agreement using the effective interest method and credited to profit or loss for each period as interest income. <i>CAS 14.5</i>
Special transactions	Not addressed.	New PRC GAAP contains detailed guidance on revenue recognition for the following special transactions: <ul style="list-style-type: none"> • Customer loyalty programmes; • Build-Operate-Transfer (BOT) agreements; and • Barter transactions involving advertising services. <i>Item 5 of Bulletin No. 2 Caikuaihan [2008] No. 60 IG of CAS, Section 3.3 and 3.4 Chapter 15</i>

C2 Employee Benefits

Item	Old PRC GAAP	New PRC GAAP
Overview	<p>Old PRC GAAP provides basic accounting principles for employee benefits, which are relatively simple.</p> <p><i>ARBE Article 101</i></p>	<p>Unlike Old PRC GAAP, New PRC GAAP classifies employee benefits into the following four categories and provides specific accounting principles.</p> <ul style="list-style-type: none"> • short-term employee benefits; • post-employment benefits; • termination benefits; and • other long-term employee benefits. <p><i>CAS 9</i></p>
Short-term employee benefits	<p>Not specifically addressed.</p> <p><i>ARBE Article 101</i></p>	<p>New PRC GAAP provides general principles regarding the accounting treatments for short-term employee benefits, and provides explicit guidance for non-monetary benefits, paid absences, profit-sharing plans, etc.</p> <p><i>CAS 9.5~10</i></p>
Post-employment benefits	<p>Not specifically addressed.</p> <p><i>ARBE Article 101</i></p>	<p>New PRC GAAP classifies post-employment benefits into defined contribution plans and defined benefit plans, and provides explicit guidance for the recognition and measurement of defined benefit plan obligations.</p> <p><i>CAS 9.11~19</i></p>
Termination benefits	<p>Not specifically addressed.</p> <p><i>ARBE Article 101</i></p>	<ul style="list-style-type: none"> • New PRC GAAP specifies the recognition criteria and measurement principle for termination benefits. • Termination benefits that are not expected to be settled wholly before twelve months after the end of the annual reporting period should be divided into defined contribution plans and defined benefit plans and be accounted for separately. <p><i>CAS 9.21~23</i></p>
Other long-term employee benefits	<p>Not specifically addressed.</p> <p><i>ARBE Article 101</i></p>	<p>Under New PRC GAAP, other long-term employee benefits should be divided into defined contribution plans and defined benefit plans and be accounted for separately.</p> <p><i>CAS 9.22 and 23</i></p>

C3 Share-based Payment

Item	Old PRC GAAP	New PRC GAAP
Overview	<p>Old PRC GAAP lacks guidance on accounting for share-based payments. In practice, equity-settled share-based payments may be disclosed as an off-balance sheet item instead of being recognised and measured in the financial statements, while cash-settled share-based payments shall be accounted for in accordance with "Standard—Contingencies" (i.e. disclosed as a contingent liability or recognised as a liability).</p> <p><i>IG of CAS, Section 3.1.2 Chapter 12</i></p>	<p>Unlike Old PRC GAAP, New PRC GAAP provides explicit guidance for the definition, classification, recognition, measurement and disclosures for share-based payments in which services are received from employees or non-employees.</p> <p><i>CAS 11 IG of CAS, Chapter 12</i></p>
Definition and classification	Not addressed.	<p>New PRC GAAP defines a share-based payment as a transaction in which the enterprise grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees or other parties. A share-based payment is classified as either an equity-settled share-based payment or a cash-settled share-based payment.</p> <p><i>CAS 11.2</i></p>
Principles for recognition	Not addressed.	<p>When services are received, the enterprises shall recognise the consideration payable (the share-based payment) as related costs or expenses, with a corresponding increase in liabilities or equity.</p> <p><i>CAS 11.4~13</i></p>
Accounting for group share-based payment transactions	Not addressed.	<p>For share-based payment transactions among group entities, New PRC GAAP provides explicit guidance on the accounting treatments for the entity settling a share-based payment transaction and the entity receiving services.</p> <p><i>Item 7 of Bulletin No. 4</i></p>

C3 Share-based Payment (continued)

Item	Old PRC GAAP	New PRC GAAP
Equity-settled share-based payment in exchange for services from employees	Not addressed.	<p>An equity-settled share-based payment in exchange for services received from the employees shall be measured at the fair value of the equity instruments granted to the employees.</p> <ul style="list-style-type: none"> • If the equity instruments vest immediately, the enterprise shall, on the grant date, recognise related costs or expenses, with a corresponding increase in capital reserve. • If the equity instruments do not vest until the completion of services over a vesting period, or until the achievement of a specified performance condition, the enterprise shall recognise the grant date fair value over the vesting period. That is, at each balance sheet date during the vesting period, the entity shall recognise the services received for the current period as related costs or expenses, with a corresponding increase in capital reserve, based on the extent to which the vesting period has expired and the best estimate of the number of equity instruments expected to vest, so that by the vesting date the full grant date fair value has been recognised in respect of those instruments that actually vest. • The enterprise shall make no subsequent adjustment to related costs or expenses recognised and total equity after the vesting date. <p>CAS 11.4~7</p>
Equity-settled share-based payment in exchange for services from parties other than employees	Not addressed.	<ul style="list-style-type: none"> • If the fair value of the services received from the counter party can be measured reliably, the fair value on the date on which services are received from the other party shall be recognised as related costs or expenses, with a corresponding increase in equity. • If the fair value of services received from the counter party cannot be measured reliably but the fair value of the equity instruments can be measured reliably, the fair value of the equity instruments on the date on which services are received shall be recognised as related costs or expenses, with a corresponding increase in equity. <p>CAS 11.8</p>

C3 Share-based Payment (continued)

Item	Old PRC GAAP	New PRC GAAP
Cash-settled share-based payment in exchange for services from employees or others	Not addressed.	<p>A cash-settled share-based payment shall be measured at the fair value of the liability incurred, being a liability which is determined based on the enterprise's shares or other equity instruments.</p> <ul style="list-style-type: none"> • If the rights vest immediately, the enterprise shall, on the grant date, recognise related costs or expenses at an amount equal to the fair value of the liability incurred, with a corresponding increase in liability. • If the rights do not vest until the completion of services during a vesting period, or until the achievement of a specified performance condition, the enterprise shall, at each balance sheet date during the vesting period, recognise the services received for the current period as related costs or expenses, with a corresponding increase in liability, at an appropriate proportion of the fair value of the liability based on the extent to which the vesting period has expired and the best estimate of the outcome of vesting. • Until the liability is settled, the enterprise shall 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 profit or loss for the period. <p>CAS 11.10~13</p>

C4 Government Grants

Item	Old PRC GAAP	New PRC GAAP
Basic principles	<p>Recognition and measurement varies depending on the nature of the government grants:</p> <ul style="list-style-type: none"> • Quota subsidies computed and granted regularly to an enterprise based on the State-regulated subsidy quota, such as sales volume or operation capacity, shall be recognised in subsidy income at the amount that becomes receivable at period-end. • Other forms of subsidy granted to enterprises operating in those industries as supported by government finance funds shall be recognised in subsidy income upon receipt. • Grants obtained from the state for a specific purpose (e.g. technological transformation and research) are accounted for using different principles based on whether the grants relate to acquiring assets or are compensation for expenses: <ul style="list-style-type: none"> - if the grants relate to acquiring assets, they shall be recognised initially as a “special payable” and shall then be transferred to “capital surplus” in the period in which the expenditures form a fixed asset or an inventory; - if the grants compensate the enterprise for expenses, they shall be recognised initially as a “special payable” and shall then be recognised in profit or loss in the same periods in which the expenses are recognised <p><i>ARBE Article 76 and 106</i> <i>“ARBE—Chart of Accounts and Financial Statements”</i> <i>Q&A (1)</i></p>	<p>Unlike Old PRC GAAP, the accounting method is based on whether the government grant is related to income or assets:</p> <ul style="list-style-type: none"> • Government grants related to income: <ul style="list-style-type: none"> - a grant that compensates the enterprise for expenses or losses to be incurred in later periods shall be recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised; - a grant that compensates the enterprise for expenses or losses already incurred shall be recognised in profit or loss immediately. • A government grant related to an asset shall be recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. • Special funds, such as investment grants allocated by the government, are dealt with as capital contributions, and are not regarded as government grants, if these are clearly defined in official documents as being part of “capital reserve”. <p><i>CAS 16.7 and 8</i> <i>CAS 16.AG.1 (II)</i></p>

C5 Income Taxes

Item	Old PRC GAAP	New PRC GAAP
Basic principles	<ul style="list-style-type: none"> An enterprise should adopt either the tax payable method or the tax effect accounting method (including deferral method and liability method) to account for income taxes according to its specific situation. In practice, most enterprises would choose the tax payable method, which is simpler than the others. In such cases, income tax expense included in profit or loss for the period generally equals the amount of current tax calculated in accordance with taxation law. <p><i>ARBE Article 107</i></p>	<p>Unlike Old PRC GAAP, income taxes shall be accounted for using the balance sheet liability method. Under this method, a deferred tax asset or liability is recognised based on temporary differences between the carrying amount of an asset or liability and its tax base, when relevant criteria are met. Income tax expense or income included in profit or loss for the period contains current tax and movements in deferred tax assets and liabilities (unless those movements relate to items taken directly to equity, in which case the movement is also taken directly to equity).</p> <p><i>CAS 18.17</i> <i>CAS 18.AG.III</i> <i>IG of CAS, Section 1.1 Chapter 19</i></p>

C6 Pre-operating Expenses

Item	Old PRC GAAP	New PRC GAAP
Basic principles	<p>Except for the acquisition and construction of fixed assets, all expenses incurred during the start-up period are aggregated in "long-term deferred expenses" and then fully charged to the income statement in the month that operations commence.</p> <p><i>ARBE Article 50</i></p>	<p>Unlike Old PRC GAAP, expenses incurred during the start-up period shall be charged to profit or loss <u>when incurred</u>.</p> <p><i>Annex of AG—Account 6602</i></p>

D Specific Issues

D1 Land Use Rights

Item	Old PRC GAAP	New PRC GAAP
Land use rights held for own use	<p>Land use rights are generally recognised as intangible assets and are subject to different accounting treatments depending on the condition of the land and buildings. The requirements are as follows:</p> <ul style="list-style-type: none"> • Before the land is used for development or construction of an own-use project, the land use right acquired shall be accounted for as an intangible asset and amortised over its useful life. • If an enterprise uses the land in the construction of a building (e.g. a plant) for its own use, it shall transfer the carrying amount of the land use right from the intangible asset into the cost of construction in progress. Upon the completion of construction, the land use rights accompanying the plant or building shall be transferred into fixed assets. <p><i>ARBE Article 47</i> <i>"Standard—Intangible assets".AG.III (VI)</i></p>	<p>New PRC GAAP is similar to Old PRC GAAP in respect of the general recognition criteria, i.e. land use rights held for an enterprise's own use are generally recognised as intangible assets. However, unlike Old PRC GAAP, New PRC GAAP requires the land use rights and buildings to be accounted for separately. The requirements are as follows:</p> <ul style="list-style-type: none"> • The purchase price shall be allocated among the buildings and land use rights acquired on a reasonable basis. In case there is difficulty in making a reasonable allocation, the full amounts shall be recognised as fixed assets. • If land use rights relate to a piece of land on which the enterprise constructs buildings (e.g. a plant) for own use, the cost of the land use rights shall be kept as intangible assets instead of being transferred into fixed assets. <p><i>CAS 6.AG.VI</i></p>

D2 Leases

Item	Old PRC GAAP	New PRC GAAP
Finance leases—initial direct costs	<ul style="list-style-type: none"> • Initial direct costs incurred by the lessee shall be <u>recognised as an expense</u> in the period in which they are incurred. • Initial direct costs incurred by the lessor shall be <u>recognised as an expense</u> in the period in which they are incurred. <p><i>"Standard—Leases" Article 10 and 21</i></p>	<ul style="list-style-type: none"> • Unlike Old PRC GAAP, initial direct costs incurred by the lessee shall be <u>added to the amount recognised for the leased asset</u>. • Unlike Old PRC GAAP, initial direct costs incurred by the lessor shall be <u>included in the initial measurement of finance lease receivables</u> and will therefore reduce the amount of revenue recognised over the lease term. <p><i>CAS 21.11 and 18</i> <i>IG of CAS, Section 2.1.1 and 3.1.1 Chapter 22</i></p>
Finance leases—allocation method for unrecognised finance charge	<p>The lessee may use the effective interest method, the straight-line method or the sum-of-year's-digits method, etc. to allocate the unrecognised finance charge.</p> <p><i>"Standard—Leases" Article 12</i></p>	<p>Unlike Old PRC GAAP, the lessee shall recognise the finance charge for the period using <u>the effective interest method</u>.</p> <p><i>CAS 21.15</i></p>

D2 Leases (continued)

Item	Old PRC GAAP	New PRC GAAP
Operating leases—initial direct costs	<ul style="list-style-type: none"> • Initial direct costs incurred by a lessee shall be recognised as an expense in the period in which they are incurred. • Initial direct costs incurred by a lessor shall be recognised as an expense in the period in which they are incurred. <p><i>“Standard—Leases” Article 17 and 31</i></p>	<ul style="list-style-type: none"> • New PRC GAAP is the same as Old PRC GAAP in respect of the accounting treatments for initial direct costs incurred by a lessee. • However unlike Old PRC GAAP, initial direct costs incurred by a lessor are only charged to profit or loss immediately if they are immaterial. Otherwise, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. <p><i>CAS 21.23 Item 3 of Bulletin No. 1</i></p>
Sale and leaseback transactions which result in an operating lease	<p>The difference between the sales proceeds and the carrying amount of the asset shall be deferred and amortised in proportion to the lease payments over the lease term. The amortisation amount is an adjustment to the rental expenses.</p> <p><i>“Standard—Leases” Article 37</i></p>	<p>Unlike Old PRC GAAP, the accounting method varies depending on whether the sales price is fair:</p> <ul style="list-style-type: none"> • if it is clear that the sale and leaseback transaction is established at fair value, the difference between the sale proceeds and the carrying amount of the asset shall be recognised in profit or loss; • if the sales price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by the seller being entitled to lease back the asset at below market price, the loss shall be deferred (as a prepayment) and amortised in proportion to the lease payments over the period for which the asset is expected to be used; and • if the sales price is above fair value, the excess over fair value shall be deferred and amortised over the lease term. <p><i>CAS 21.32 IG of CAS, Section 4.2 Chapter 22</i></p>

D3 Exchange of Non-Monetary Assets

Item	Old PRC GAAP	New PRC GAAP
Basic principles for recognition and measurement	<p>In a non-monetary transaction, the cost of the assets received shall be measured based on the <u>carrying amount of the assets given up</u> plus any related tax payments, adjusted for receipt or payment of cash, if any.</p> <p><i>“Standard—Non-monetary transactions” Article 5 and 6</i></p>	<p>Unlike Old PRC GAAP, the accounting method varies depending on whether the exchange transaction has commercial substance:</p> <ul style="list-style-type: none"> When an exchange of non-monetary assets meets both of the following conditions, the cost of the asset received shall be measured at <u>fair value</u> plus any related taxes, and the difference between the fair value and the carrying amount of the asset(s) given up shall be recognised in profit or loss: <ul style="list-style-type: none"> the exchange transaction has commercial substance; and the fair value of either the asset received or the asset given up can be reliably measured. If an exchange of non-monetary assets fails to meet both of the conditions prescribed above, the cost of the asset received shall be measured at the carrying amount of the asset(s) given up plus any related taxes, and no gain or loss shall be recognised. <p><i>CAS 7.3 and 6</i></p>

D4 Debt Restructuring

Item	Old PRC GAAP	New PRC GAAP
Definition	<p>Under Old PRC GAAP, a debt restructuring is defined as an event in which the terms of a debt are modified as a result of a mutual agreement between a debtor and a creditor or a judgment by a court.</p> <p><i>“Standard—Debt restructuring” Article 2</i></p>	<p>Under New PRC GAAP, a debt restructuring is defined as an event in which a debtor is in <u>financial difficulty</u> and a <u>creditor grants a concession</u> to the debtor in accordance with a mutual agreement or a court judgment.</p> <p><i>CAS 12.2</i></p>
Accounting by the borrower – general principle	<ul style="list-style-type: none"> When the debt restructuring involves the settlement of the debt in exchange for assets or the issuance of an entity’s own capital, the difference between <ol style="list-style-type: none"> the <u>carrying amount</u> of the debt to be restructured; and the cash actually paid, the aggregate of the carrying amount of the non-cash assets transferred and any related tax payments or the <u>book value</u> of the capital issued to the creditors shall be recognised as capital reserve (when (1) is greater than (2)) or as a loss (when (1) is less than (2)). 	<ul style="list-style-type: none"> Unlike Old PRC GAAP, any excess of the carrying amount of the debt over the cash, other assets or capital transferred to settle the debt, shall be recognised in profit or loss as a gain on debt restructuring. Also unlike Old PRC GAAP, this gain on debt restructuring is measured with reference to the <u>fair value</u> of the non-cash assets transferred and the <u>fair value</u> of the capital issued to the creditor (rather than their book values). <ul style="list-style-type: none"> The difference between the fair value of the non-cash assets transferred and their carrying amount shall be recognised in profit or loss, separately from the gain on debt restructuring. The fair value of the capital issued shall be recognised in equity. If the fair value of the capital issued to the creditor exceeds the amount recognised as share capital (or paid-in capital), the excess shall be recognised as capital reserve.

D4 Debt Restructuring (continued)

Item	Old PRC GAAP	New PRC GAAP
Accounting by the borrower – general principle (continued)	<ul style="list-style-type: none"> When a debt restructuring involves the modification of other terms of a debt and the carrying amount of the debt being restructured is greater than the <u>amount payable in the future</u>, the difference shall be recognised as capital reserve. If the carrying amount of the debt being restructured is equal to or less than the amount payable in the future, no adjustment is required at the debt restructuring date. <p><i>“Standard—Debt restructuring” Article 4~7</i></p>	<ul style="list-style-type: none"> Unlike Old PRC GAAP, when a debt restructuring involves the modification of other terms of a debt, the difference between the carrying amount of the debt being restructured and the <u>fair value</u> of the restructured debt shall be recognised in profit or loss as the gain on debt restructuring. <p>CAS 12.4~7</p>
Accounting by the borrower – specific requirement: forgiveness of debt by a shareholder (including controlling shareholders and non-controlling shareholders) or its subsidiaries	<p>Recognised as capital reserve.</p> <p><i>“Standard—Debt restructuring” Article 4~7</i></p>	<p>Similar to Old PRC GAAP, if such forgiveness of debt is in substance a capital injection, it shall be treated as an equity transaction, and therefore the gain is recognised in equity (capital reserve).</p> <p><i>Caikuaihan [2008] No. 60 Item 6 of Bulletin No. 5</i></p>
Accounting by the lender	<ul style="list-style-type: none"> Non-cash assets or equity interests received in a debt restructuring shall be recorded at an amount equal to the <u>carrying amount</u> of the receivable being restructured. When a debt restructuring involves the modification of other terms of a receivable and the carrying amount of the receivable to be restructured is greater than the <u>amount to be received in the future</u>, the creditor shall reduce the carrying amount of the receivable to the amount to be received in the future. The amount of the reduction shall be recognised as a loss. If the carrying amount of the receivable being restructured is equal to or less than the amount to be received in the future, no adjustment is required. <p><i>“Standard—Debt restructuring” Article 10~12</i></p>	<ul style="list-style-type: none"> Unlike Old PRC GAAP, non-cash assets or equity interests received in a debt restructuring shall be recognised at their <u>fair value</u>. The difference between the carrying amount of the receivable being restructured and the fair value of the non-cash assets or equity interests received shall be recognised in profit or loss. Unlike Old PRC GAAP, when a debt restructuring involves the modification of other terms of a debt, the creditor shall use the <u>fair value</u> of the restructured receivable (i.e. after the other terms have been modified) as the carrying amount of the restructured receivable. Any difference between the carrying amount of the receivable being restructured and the fair value of the restructured receivable shall be recognised in profit or loss. <p>CAS 12.9~12</p>

D5 Related Party Disclosures

Item	Old PRC GAAP	New PRC GAAP
Definition	Parties are regarded as related to each other if one party has the power to, directly or indirectly, control, jointly control or exercise significant influence over the other party, or if two or more parties are subject to <u>control</u> from the same party. <i>"Standard—Disclosures of related party relationships and transactions" Article 4</i>	New PRC GAAP expands the scope of related parties. For example, two <u>joint ventures jointly controlled by the same party</u> , are regarded as related parties. <i>IG of CAS, Section 1 Chapter 37</i>
Parent company's key management personnel and their close family members	Not regarded as related to the enterprise. <i>"Standard—Disclosures of related party relationships and transactions" Article 5</i>	Unlike Old PRC GAAP, such individuals are regarded as being related to the enterprise. <i>CAS 36.4</i>
Disclosure of related party transactions in the financial statements of a parent company provided together with the consolidated financial statements	Old PRC GAAP does not require disclosure of related party transactions in the financial statements of a parent company, when these are provided together with the consolidated financial statements. <i>"Standard—Disclosures of related party relationships and transactions" Article 2</i>	New PRC GAAP has deleted the exemption provided under Old PRC GAAP, and therefore such disclosure is required. <i>IG of CAS, Section 5.1.1 Chapter 37</i>

D6 Segment Reporting

Item	Old PRC GAAP	New PRC GAAP
Compulsory disclosure of segment information	The disclosure of segment information is determined by the enterprises based on the requirements of the users of the financial statements or management. <i>Item 4 of Q&A (2)</i>	Unlike Old PRC GAAP, all enterprises which adopt New PRC GAAP are required to comply with <i>CAS No. 35—Segment Reporting</i> . <i>Item 8 of Bulletin No. 3 IG of CAS, Section 1 Chapter 36</i>
Basic principle	Old PRC GAAP identifies segments as either business or geographical segments. <i>"ARBE—Chart of accounts and financial statements" Section 5.8</i>	Unlike Old PRC GAAP, reportable segments are identified and disclosed based on operating segments as defined within the enterprise. <i>Item 8 of Bulletin No. 3</i>

II New PRC GAAP's convergence with IFRS: Impact on Foreign Invested Enterprises

In practice, FIEs generally prepare their group reporting packages under the accounting policies of their overseas parents (commonly in accordance with IFRS) in addition to their PRC statutory financial statements. Since New PRC GAAP is converged with IFRS, these enterprises may have an advantage so far as understanding and converting to New PRC GAAP is concerned.

However, since New PRC GAAP is converged with but not identical to IFRS, it cannot be assumed that IFRS-based group policies will automatically be acceptable under New PRC GAAP. Hence, an important step in an FIE's adoption of New PRC GAAP will be to understand the relationship between New PRC GAAP and IFRS and to identify whether in their own circumstances some differences between their PRC statutory reporting and their group reporting should remain.

In order to assist in this analysis, we will first provide an overview of the convergence of New PRC GAAP with IFRS and then take a closer look at specific financial reporting issues where the requirements of New PRC GAAP may differ from the application of IFRS in practice.

Overview of convergence of New PRC GAAP with IFRS

During the development of New PRC GAAP, the China Accounting Standards Committee (CASC) involved the International Accounting Standards Board (IASB) in confirming the extent to which New PRC GAAP converged with IFRS. This culminated in a joint statement on 8 November 2005, in which the CASC and IASB affirmed that New PRC GAAP had achieved convergence with IFRS.

"Convergence" is a dynamic process of maintaining consistency with IFRS in terms of accounting principles and substance, but is neither a "direct adoption" of IFRS nor a word-for-word translation of IFRS. In addition, in the case of the convergence of New PRC GAAP with IFRS, a limited number of specific differences were noted in the 2005 announcement, such as those on the disclosure of related party relationships and transactions and reversal of impairment losses, where the CASC did not consider that the IFRS approach was appropriate for China's circumstances.

As New PRC GAAP has converged with IFRS, in many cases a direct or close correlation can be established between individual standards under New PRC GAAP and IFRS. This can be seen from the table below which maps the two sets of standards issued as of 30 September 2014 and effective for annual accounting periods ending 31 December 2014:

IFRS	New PRC GAAP
IFRS 1 First-time Adoption of IFRS	CAS 38 First-time Adoption of Accounting Standards for Business Enterprises
IFRS 2 Share-based Payment	CAS 11 Share-based Payment
IFRS 3 Business Combinations	CAS 20 Business Combinations
IFRS 4 Insurance Contracts	CAS 25 Direct Insurance Contracts CAS 26 Reinsurance Contracts
IFRS 5 Non-current Assets Held for Sale and Discontinued Operations	<i>See note 1</i>
IFRS 6 Exploration for and Evaluation of Mineral Resources	CAS 27 Extraction of Oil and Natural Gas
IFRS 7 Financial Instruments: Disclosures	CAS 37 Financial Instruments: Presentation and Disclosures
IFRS 8 Operating Segments	CAS 35 Segment Reporting
IFRS 10 Consolidated Financial Statements	CAS 33 Consolidated Financial Statements

II New PRC GAAP's convergence with IFRS: Impact on Foreign Invested Enterprises

IFRS	New PRC GAAP
IFRS 11 Joint Arrangements	CAS 40 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities	CAS 41 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement	CAS 39 Fair Value Measurement
IAS 1 Presentation of Financial Statements	CAS 30 Presentation of Financial Statements
IAS 2 Inventories	CAS 1 Inventories
IAS 7 Statement of Cash Flows	CAS 31 Statement of Cash Flows
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	CAS 28 Changes in Accounting Policies and Accounting Estimates and Correction of Errors
IAS 10 Events after the Reporting Period	CAS 29 Events after the Balance Sheet Date
IAS 11 Construction Contracts	CAS 15 Construction Contracts
IAS 12 Income Taxes	CAS 18 Income Taxes
IAS 16 Property, Plant and Equipment	CAS 4 Fixed Assets
IAS 17 Leases	CAS 21 Leases
IAS 18 Revenue	CAS 14 Revenue
IAS 19 Employee Benefits	CAS 9 Employee Benefits
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	CAS 16 Government Grants
IAS 21 The Effects of Changes in Foreign Exchange Rates	CAS 19 Foreign Currency Translation
IAS 23 Borrowing Costs	CAS 17 Borrowing Costs
IAS 24 Related Party Disclosures	CAS 36 Related Party Disclosures
IAS 26 Accounting and Reporting by Retirement Benefit Plans	CAS 10 Enterprise Pension Funds
IAS 27 Separate Financial Statements IAS 28 Investments in Associates and Joint Ventures	CAS 2 Long-term Equity Investments
IAS 29 Financial Reporting in Hyperinflationary Economies	<i>See note 2</i>
IAS 32 Financial Instruments: Presentation	CAS 37 Financial Instruments: Presentation and Disclosures
IAS 33 Earnings per Share	CAS 34 Earnings per Share
IAS 34 Interim Financial Reporting	CAS 32 Interim Financial Reporting
IAS 36 Impairment of Assets	CAS 8 Impairment of Assets
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	CAS 13 Contingencies
IAS 38 Intangible Assets	CAS 6 Intangible Assets
IAS 39 Financial Instruments: Recognition and Measurement	CAS 12 Debt Restructurings CAS 22 Financial Instruments: Recognition and Measurement CAS 23 Transfer of Financial Assets CAS 24 Hedging
IAS 40 Investment Property	CAS 3 Investment Property
IAS 41 Agriculture	CAS 5 Biological Assets
<i>See note 3</i>	CAS 7 Exchange of Non-monetary Assets

Note 1 There is no specific standard on non-current assets held for sale and discontinued operations under New PRC GAAP. However, corresponding requirements can be found in the following New PRC GAAP pronouncements:

Regulation	Relevant guidance
CAS 4—Fixed Assets	<ul style="list-style-type: none"> Requiring that the carrying amount shall be adjusted if the fixed asset is held for sale.
CAS Bulletin No. 1	<ul style="list-style-type: none"> Prescribing that the accounting treatment for other non-current assets held for sale should be the same as that for fixed assets held for sale.
CAS 2—Long-term Equity Investments	<ul style="list-style-type: none"> Prescribing that the accounting treatment for long-term equity investments held for sale should be the same as that for fixed assets held for sale.
CAS 30— Presentation of Financial Statements	<ul style="list-style-type: none"> Requiring that non-current assets held for sale should be classified as current assets and presented separately in the balance sheet. Prescribing the definition of “discontinued operations” and the related disclosure requirements.

Note 2 There is no specific standard on financial reporting in hyperinflationary economies under New PRC GAAP. However, CAS 19—Foreign Currency Translation and its application guidance prescribe the fundamental characteristics of hyperinflation, and how to restate and translate the financial statements of a foreign operation that operates in a hyperinflationary economy.

Note 3 There is no specific standard under IFRS on exchanges of non-monetary assets. However the accounting treatments for exchanges of non-monetary assets that are set out in CAS 7—Exchange of Non-monetary Assets are similar to those found in IFRS, for example, in IAS 18—Revenue and IAS 16—Property, Plant and Equipment .

As discussed above, although New PRC GAAP is converged with IFRS, it cannot be assumed that policies adopted by those following IFRS will comply with New PRC GAAP in all cases, or, conversely, that financial information prepared under New PRC GAAP will be suitable for consolidation into an overseas parent's group financial statements. This is because of the following characteristics of the extent of New PRC GAAP's convergence with IFRS:

- 1 Certain options are permitted under IFRS but not under New PRC GAAP;
- 2 New PRC GAAP contains specific requirements on certain issues commonly encountered in China where IFRS is silent;
- 3 Certain specific requirements in IFRS, on matters not commonly encountered in China, are covered by general principles in New PRC GAAP rather than detailed requirements; and
- 4 There can be time lags between amendments to IFRS and New PRC GAAP, in particular where the IFRS amendment may be adopted earlier than its first effective date.

In short, certain accounting treatments required to be adopted under New PRC GAAP may not be the only option allowed under IFRS. This results in the possibility that policies adopted under IFRS may be unacceptable under New PRC GAAP and, conversely, policies adopted under New PRC GAAP may be inconsistent with those chosen elsewhere in the group to which the FIE belongs.

FIEs in China therefore need to take care when making decisions about whether the financial statements prepared under New PRC GAAP can be directly used in its group reporting package or, conversely, whether the accounting policies of its overseas parent can be copied and used locally under New PRC GAAP.

These characteristics of New PRC GAAP's convergence with IFRS are explained more fully below, followed by an inventory of specific instances where they may arise in practice.

1. *Certain options are permitted under IFRS but not under New PRC GAAP*

To improve the comparability of various enterprises' financial statements, New PRC GAAP reduces the options for accounting policies that may be adopted by enterprises compared to IFRS.

For example, under IFRS both cost and revaluation models are allowed for items of property, plant and equipment held for own use, but New PRC GAAP only accepts the cost model. If an overseas enterprise uses the revaluation model under IFRS in its group accounting policies, there may be differences between the FIE's financial statements prepared under New PRC GAAP and the FIE's group reporting package.

2. *New PRC GAAP contains specific requirements on certain issues commonly encountered in China where IFRS is silent*

As the MOF has taken into account the particular circumstances in China when formulating New PRC GAAP, certain matters which are commonly encountered in China are addressed by New PRC GAAP even though IFRS is silent.

For instance, for a business combination involving enterprises under common control, New PRC GAAP makes it clear that only a method of accounting similar to the pooling of interests method (including restatement of comparatives) is acceptable, while under IFRS alternative accounting treatments may also be adopted in practice, such as the carry over method (without the restatement of comparatives) or the acquisition method, as IFRS does not prescribe specific accounting rules. If an overseas parent adopts a method of accounting under IFRS which does not comply with the provision of PRC GAAP (e.g. it is their group policy to apply the acquisition method to account for all business combinations), differences may emerge between the financial statements prepared under New PRC GAAP and the group reporting package in this respect.

3. *Certain specific requirements in IFRS, on matters not commonly encountered in China, are covered by general principles in New PRC GAAP rather than detailed requirements*

As New PRC GAAP was formulated by the MOF for enterprises in China, it does not include some of the more detailed provisions of IFRS relating to transactions that are not common in China.

One example is share-based payment plans. While New PRC GAAP includes requirements on share-based payment plans related to the provision of services which are similar to those found in IFRS 2, New PRC GAAP does not cover the accounting treatments for share-based payment transactions which involve the supply of goods, as this rarely happens in China.

On occasion FIEs may encounter these transactions either when consolidating the results of overseas investees or, unusually, in its own operations in China. In such cases, New PRC GAAP generally does not allow the enterprise to directly adopt IFRS for matters not covered in New PRC GAAP, and therefore an FIE should not simply copy its overseas group accounting policies when New PRC GAAP appears to be silent. The FIE should instead determine whether its group accounting policies conflict with the principles in New PRC GAAP and current practices in China, and if necessary consult the MOF about whether the proposed accounting treatment is acceptable, before reaching a conclusion on the matter.

The only exception to the above requirement which is clearly permitted under New PRC GAAP is related to a parent company in China for preparing consolidated financial statements. Where an overseas subsidiary encounters a transaction that does not exist or is prohibited by laws or regulations in China, or

which occurs in rare cases and is therefore not addressed under New PRC GAAP, the parent can combine the amounts originally accounted for by the overseas subsidiary under IFRS in the parent's consolidated financial statements under New PRC GAAP, if the accounting treatments made by the subsidiary under IFRS comply with the basic principles in "CAS—Basic Standard".

4. There can be time lags between amendments to IFRS and New PRC GAAP, in particular where the IFRS amendment may be adopted earlier than its first effective date

After the issuance of new IFRS standards or amendments, the MOF will usually consider China's economy and solicit comments from stakeholders before deciding how to reflect these new IFRS standards or amendments in New PRC GAAP. If an overseas enterprise adopts IFRS standards or amendments that are not yet reflected in New PRC GAAP, differences between the policies adopted at group level and the FIE's New PRC GAAP financial statements may arise. This is particularly likely if the group has adopted an IFRS amendment early, before its effective date.

For example, earlier application was permitted for *IFRS 10—Consolidated Financial Statements*, which was issued in 2011 but was not first effective until annual accounting periods beginning on or after 1 January 2013. The related amendments to *CAS 33—Consolidated Financial Statements* (revised in February 2014 by the MOF) introduce revisions regarding consolidated financial statements, which are effective from 1 July 2014. Overseas-listed companies are encouraged to apply the standard earlier. Therefore, if the overseas parent company applies IFRS, *IFRS 10—Consolidated Financial Statements* has been adopted in the financial statements for the year ended 31 December 2013. The financial statements for the year ended 31 December 2013 prepared under the unrevised New PRC GAAP by the parent's subsidiary in China (FIE) may differ from its group reporting package for the year ended 31 December 2013, which is prepared based on group accounting policies under IFRS in this respect.

In the next few years, this issue is expected to persist as the IASB is undertaking a substantial programme of revision to IFRS.

In summary, when preparing their PRC financial statements, FIEs must comply with New PRC GAAP if any inconsistencies are found between their group accounting policies and New PRC GAAP. This includes paying attention to identifying appropriate policies for transactions and matters covered in their group accounting policies under IFRS but which are not addressed in New PRC GAAP, as simply adopting IFRS rules is not appropriate.

A closer look at financial reporting issues where the requirements of New PRC GAAP may differ from IFRS in practice

The following tables highlight financial reporting issues where the approaches taken by entities reporting under New PRC GAAP and IFRS may not be the same, and hence areas FIEs may need to be more cautious. The tables summarise significant and common issues in respect of recognition, measurement and presentation of financial statements. The analysis is based on New PRC GAAP and IFRS pronouncements issued as of 31 September 2014 and effective for annual accounting periods² ending 31 December 2014. It is worth noting that both sets of accounting standards are evolving rapidly, and enterprises should make sure they are aware of the latest updates.

Each discussion is referenced to the relevant source in IFRS or New PRC GAAP to assist in further research on the requirements if they are of relevance. This analysis may be useful, for example, if using IFRS-based group accounting policies as a starting point for identifying the policies that the entity plans to adopt under New PRC GAAP.

² During the first quarter of 2014, the MOF issued seven new/revised specific accounting standards regarding Long-term Equity Investments, Employee Benefits, Presentation of Financial Statements, Consolidated Financial Statements, Fair Value Measurement, Joint Arrangements, and Disclosure of Interests in Other Entities. These standards are effective from 1 July 2014. Overseas-listed companies are encouraged to apply them earlier. On the first-time adoption of the above new/revised accounting standards, some principles are required retrospective application while others required prospective application. On 20 June 2014, the MOF revised *CAS 37—Financial Instruments: Presentation and Disclosures* and required enterprises to apply it for annual periods beginning on or after 1 January 2014.

The issues are grouped into those relating to the financial statements level, balance sheet items, income statement items, and specific issues as follows:

A Financial statements level

- A1 Presentation of financial statements
- A2 Business combinations (including goodwill)
- A3 Consolidated financial statements and investments in subsidiaries

B Balance sheet items

- B1 Investment property
- B2 Fixed assets
- B3 Capitalisation of borrowing costs
- B4 Intangible assets
- B5 Investments in joint ventures and associates
- B6 Financial instruments
- B7 Impairment of assets

C Income statement items

- C1 Share-based payment
- C2 Government grants

D Specific issues

- D1 Land use rights
- D2 Debt restructuring
- D3 Related party disclosures
- D4 Segment reporting
- D5 Safety production fund

A Financial Statements Level

A1 Presentation of Financial Statements

Item	IFRS	New PRC GAAP
Components of financial statements	<p>When presenting IFRS financial statements, enterprises have a choice of whether to present income and expense items:</p> <ul style="list-style-type: none"> • in a single statement of comprehensive income; or • using a two statement approach, which involves presenting an "income statement" (which arrives at "profit or loss"), followed by a "statement of comprehensive income" (which arrives at "total comprehensive income"). <p><i>IAS 1.10A</i></p>	<p>Under New PRC GAAP, only the single statement approach is acceptable i.e. the income statement should include all items of income and expense and arrive at "total comprehensive income". "Other comprehensive income" should be shown as a separate line item within this statement, with the components of "other comprehensive income" being disclosed in the notes.</p> <p><i>CAS 30.31 and 40</i></p>
Format of financial statements and items presented	<p>IFRS sets out overall principles and minimum line items to be presented but does not prescribe the formats in detail.</p> <p><i>IAS 1.15, 38, 45 and 47</i></p>	<p>New PRC GAAP contains detailed requirements on the format of financial statements and the items to be presented.</p> <p><i>CAS 30.AG.III</i></p>
Accounting year	<p>IFRS requires financial statements to be presented at least annually. However, it does not specify the start or end of the financial reporting period and permits an entity to change its reporting date.</p> <p><i>IAS 1.36</i></p>	<p>The financial year shall run from 1 January to 31 December.</p> <p><i>Article 11 of "Accounting Law"</i></p>
Classification of expenses in the Income statement/ Statement of comprehensive income	<p>Under IFRS, an enterprise classifies expenses either based on the nature of the expenses <u>or</u> their function, depending on which format is considered reliable and more relevant.</p> <ul style="list-style-type: none"> • Enterprises classifying expenses by function are required to disclose additional information on the nature of expenses. <p><i>IAS 1.99 and 104</i></p>	<p>Under New PRC GAAP, expenses must be classified based on their function.</p> <ul style="list-style-type: none"> • An enterprise is required to disclose in the notes an income statement in which expenses are classified by nature. <p><i>CAS 30.30 and 39</i></p>
Cash flow statement— cash flow from operating activities	<ul style="list-style-type: none"> • Under IFRS, enterprises can choose whether to present cash flows from operating activities using the direct method or indirect method. Typically, entities reporting under IFRS use the indirect method. • There is no need to disclose the other method in the notes to the cash flow statement. <p><i>IAS 7.18</i></p>	<ul style="list-style-type: none"> • Under New PRC GAAP, enterprises are required to use the direct method to present cash flows from operating activities. • Enterprises are also required to disclose in the notes a reconciliation of net profit to cash flow from operating activities using the indirect method. <p><i>CAS 31.8 and 16</i> <i>CAS 31.AG.III (I)</i></p>

II New PRC GAAP's convergence with IFRS: Impact on Foreign Invested Enterprises

A2 Business Combinations (Including Goodwill)

A2.1 Business Combinations involving Enterprises under Common Control

Item	IFRS	New PRC GAAP
Accounting for a business combinations involving enterprises under common control	<ul style="list-style-type: none"> IFRS 3 provides a definition of "Business combinations involving enterprises under common control". However, it uses this definition to scope out such business combinations from the requirements of IFRS 3 and does not contain any alternative detailed accounting rules for such transactions. In practice, divergent accounting treatments exist under IFRS. For example, some enterprises refer to US GAAP which is similar to New PRC GAAP in principle. However, other enterprises apply the accounting treatments of business combinations not involving enterprises under common control as set out in IFRS 3. <p>IFRS 3.2(c)</p>	Under New PRC GAAP, business combinations involving enterprises under common control shall be accounted for using a method of accounting similar to the pooling of interests method. (See Item A2.1 of Part I for details)

A2.2 Business Combinations not involving Enterprises under Common Control

Item	IFRS	New PRC GAAP
Fundamental principles	<p>Shall be accounted for using the acquisition method.</p> <p>IFRS 3.4</p>	<p>New PRC GAAP is similar to IFRS in general principles. However, New PRC GAAP lacks guidance on certain matters which are addressed specifically under IFRS. For example:</p> <ul style="list-style-type: none"> determining what is part of the business combination transaction; subsequent measurement and accounting for reacquired rights and indemnification assets. <p>CAS 20 Item 1 to 5 of Bulletin No. 4 IG of CAS, Section 3.1.3 Chapter 21 "Notice on preparing the 2010 annual reports of listed and unlisted enterprises adopting CAS" (Caikuai [2010] No. 25) Article 2(6)</p>

A3 Consolidated Financial Statements and Investments in Subsidiaries

A3.1 Consolidated Financial Statements

Item	IFRS	New PRC GAAP
Non-controlling interest	<ul style="list-style-type: none"> Under IFRS, the acquirer can choose, on an acquisition by acquisition basis, whether to measure components of non-controlling interest in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation: <ul style="list-style-type: none"> - at fair value; or - at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests (e.g. written options classified as equity instruments) shall be measured at their acquisition-date fair values, unless another measurement basis is required by IFRS. <p><i>IFRS 3.19</i></p>	<ul style="list-style-type: none"> Under New PRC GAAP, the acquirer should always recognise the non-controlling interest at the non-controlling shareholders' proportionate interest in the acquiree's identifiable net assets. <p><i>CAS 33.31</i></p>
Situations in which a parent company should prepare consolidated financial statements	<p>IFRS exempts certain parents from presenting consolidated financial statements if certain criteria are met. For example, this most commonly applies:</p> <ul style="list-style-type: none"> where a parent is a qualified investment entity; or where a parent is itself a wholly-owned subsidiary of another entity which publishes IFRS financial statements. This exemption is optional i.e. such parents may choose whether or not they wish to present consolidated financial statements. <p><i>IFRS 10.4</i></p>	<p>Like IFRS, a qualified investment entity is exempted from presenting consolidated financial statements. (See item A3.1 of Part I for details) Unlike IFRS, under New PRC GAAP, all other parent companies shall prepare consolidated financial statements.</p> <p><i>CAS 33.4</i></p>
Consolidation procedures—Uniform accounting periods	<ul style="list-style-type: none"> Under IFRS, the financial information used in the consolidation should be prepared as of a uniform reporting date, unless impracticable. If impracticable, then no more than 3 months difference is allowed between the reporting date of the subsidiary and its parent (the effects of significant transactions and events that occur during those 3 months should also be adjusted). <p><i>IFRS 10.B92 and B93</i></p>	<p>Under New PRC GAAP, uniform accounting periods are required for all entities included in the consolidation.</p> <p><i>CAS 33.28</i></p>

A3 Consolidated Financial Statements and Investments in Subsidiaries (continued)

A3.2 Investments in Subsidiaries (Separate Financial Statements³)

Item	IFRS	New PRC GAAP
Initial and subsequent measurement	<ul style="list-style-type: none"> Under IFRS, parents can make a policy choice to carry all their investments in subsidiaries at either cost <u>or</u> in accordance with IAS 39, unless the subsidiary is classified as held for sale under IFRS 5. If certain criteria are met in respect of a group reorganisation involving the establishment of a new parent, and the new parent adopts the cost method, the new parent shall measure the cost of the investment in the subsidiary at its share of the carrying value of the acquiree's equity at the combination date. <p><i>IAS 27.10 and 13</i></p>	<ul style="list-style-type: none"> Under New PRC GAAP, the cost method shall be used unless the subsidiary is classified as held for sale. If the subsidiary was acquired through a business combination under common control, the initial investment cost shall be acquirer's share of the carrying value of the acquiree's equity in the consolidated financial statements of the ultimate controlling party at the combination date. <i>(See Item A3.2 of Part I for details)</i> <p><i>CAS 2.5 and 7 Item 6 of Bulletin No.1</i></p>

³ The accounting treatments for investments in subsidiaries in the separate financial statements of a parent, which is not an investment entity, is introduced in A3.2.

B Balance Sheet Items

B1 Investment Property

Item	IFRS	New PRC GAAP
Definition	<p>Investment property is held to earn rentals or for capital appreciation or both by <u>a property owner or a lessee under a financial lease</u>. A lessee under an operating lease can also choose, on a property by property basis, to classify the leased property as investment property, provided it otherwise meets the definition of investment property and is carried at fair value.</p> <p><i>IAS 40.5 and 6</i></p>	<p>Investment property is property held to earn rentals or for capital appreciation or both by <u>a property owner or a land use right holder</u>. However, a lessee under a finance lease or an operating lease shall not classify the leased property as an investment property even if the property interest is held to earn rentals or for capital appreciation or both.</p> <p><i>CAS 3.2</i></p>
Scope	<p>Under IFRS, the following are classified as investment property:</p> <ul style="list-style-type: none"> • land held for future capital appreciation; • land and/or buildings that are leased out under an operating lease; • property that is vacant but is held to be leased out under one or more operating leases; • land held for a currently undetermined future use; • property that is being constructed or developed for future use as investment property. <p><i>IAS 40.8</i></p>	<p>The scope under New PRC GAAP is generally the same as under IFRS, except for the difference arising from the definition mentioned above and the fact that land held for a currently undetermined future use is not classified as investment property.</p> <p><i>IG of CAS, Section 1.2 Chapter 4</i></p>
Subsequent measurement	<ul style="list-style-type: none"> • Under IFRS, an enterprise should make a policy choice to use either the cost model or fair value model. • If the fair value model is chosen, it shall be applied to all of the enterprise's investment properties, other than in the exceptional case that the fair value of a property is not reliably measurable on a continuing basis, and this fact was identified at the time that this property was initially recognised as investment property (or, in the case of a self-constructed investment property, at the latest when that property is complete). In such cases, the cost model shall be used for this property until disposal. <p><i>IAS 40.30 and 53</i></p>	<ul style="list-style-type: none"> • Under New PRC GAAP, an enterprise shall use the cost model, unless there is clear evidence that the fair value of an investment property can be reliably determined on a continuing basis, in which case the fair value model can (but need not) be used for that property. <u>If the fair value model is chosen, the requirements under New PRC GAAP are similar to those under IFRS.</u> • Both of the following conditions need to be met if the fair value model is to be used: <ul style="list-style-type: none"> - there is an active property market in the location in which the investment property is situated; and - the enterprise can obtain the market prices and other relevant information regarding the same or similar types of properties from the property market, so as to reasonably estimate the fair value of the investment property. <p><i>CAS 3.9 and 10</i> <i>CAS 3.AG.II</i> <i>IG of CAS, Section 2.2 Chapter 4</i></p>

B2 Fixed Assets

Item	IFRS	New PRC GAAP
Subsequent measurement	<p>Under IFRS, an enterprise should make a policy choice, on a class by class basis, to carry items of property, plant and equipment held for own use using either</p> <ul style="list-style-type: none"> • the cost model; or • the revaluation model. <p>IAS 16.29</p>	<p>Under New PRC GAAP, only the cost model is permitted.</p> <p>CAS 4.14~20</p>

B3 Capitalisation of Borrowing Costs

Item	IFRS	New PRC GAAP
Scope	<p>Under IFRS, an enterprise can choose not to capitalise borrowing costs attributable to inventories, even if they otherwise meet the definition of a qualifying asset (i.e. even if it necessarily takes a substantial period of time to get the inventories ready for their intended use or sale) if those inventories are manufactured, or otherwise produced, in large quantities on a repetitive basis.</p> <p>IAS 23.4 and 5</p>	<p>There is no specific exemption under New PRC GAAP for inventories that are manufactured, or otherwise produced, in large quantities on a repetitive basis. Therefore, enterprises shall capitalise borrowing costs attributable to inventories, whenever these meet the definition of a qualifying asset under New PRC GAAP.</p> <p>CAS 17.4</p>
Borrowing costs eligible for capitalisation	<p>Under IFRS, borrowing costs eligible for capitalisation include <u>exchange differences arising from foreign currency borrowings only to the extent that they represent an adjustment to interest costs.</u></p> <p>IAS 23.6</p>	<p>Under New PRC GAAP all exchange differences arising from the retranslation of the principal and interest of a specific foreign currency borrowing are eligible for capitalisation.</p> <p>CAS 17.9</p>

B4 Intangible Assets

Item	IFRS	New PRC GAAP
Subsequent measurement	<p>Under IFRS, an enterprise should make a policy choice, on a class by class basis, to carry intangible assets using either</p> <ul style="list-style-type: none"> • the cost model; or • the revaluation model. <p>If the revaluation model is chosen, it should be used for all intangible assets within that class, except those assets for which there is no active market. An active market is narrowly defined in this respect.</p> <p>IAS 38.8 and 72</p>	<p>Under New PRC GAAP, only the cost model is permitted.</p> <p>CAS 6.16~21</p>

B5 Investments in Joint Ventures and Associates

Item	IFRS	New PRC GAAP
Subsequent measurement	<ul style="list-style-type: none"> • When an enterprise has subsidiaries and investments in joint ventures or associates, and is preparing separate financial statements (whether in addition to, or instead of, consolidated financial statements), it can make a policy choice to carry its investments in joint ventures or associates either at cost or in accordance with IAS 39, except for those interests which are classified as held for sale under IFRS 5. • When an enterprise does not have any subsidiaries but has an investment in a joint venture or associate, the subsequent measurement basis depends on whether or not the enterprise is eligible to, and chooses to, prepare separate financial statements: <ul style="list-style-type: none"> - if the enterprise is eligible to, and chooses to, prepare separate financial statements, the policy choices are as set out above; whereas - if the enterprise is not preparing separate financial statements, it shall apply the equity method in these non-consolidated financial statements, except for those interests which are classified as held for sale under IFRS 5. <p><i>IAS 28.17-20</i> <i>IAS 27.10</i></p>	<p>Under New PRC GAAP, investments in joint ventures or associates shall be accounted for using the equity method, except for those interests which are classified as held for sale.</p> <p><i>CAS 2.9</i></p>
Share of investee's owners' equity changes, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution	<p>IFRS does not specify the accounting treatments for this matter. In practice, divergent accounting treatments exist. For example, some enterprises may account for such changes depending on the nature of each transaction.</p>	<p>Under New PRC GAAP, relevant effects are required to be recognised in owners' equity.</p> <p><i>CAS 2.11</i></p>

II New PRC GAAP's convergence with IFRS: Impact on Foreign Invested Enterprises

B6 Financial Instruments

Item	IFRS	New PRC GAAP
Extent of detailed requirements	<p>IFRS provides extensive explanations and examples for accounting for financial instruments and certain limited opportunities for reclassification.</p> <p><i>IAS 32, 39</i> <i>IFRS 7</i></p>	<p>The basic principles for financial instruments under New PRC GAAP are similar to those under IFRS. However, as a result of taking into account the particular circumstances in China, there are <u>limited</u> differences in the detailed rules in New PRC GAAP compared to IFRS. For example, financial assets at fair value through profit or loss are not permitted to be reclassified under New PRC GAAP.</p> <p><i>CAS 22, 23, 24 and 37</i> <i>Caikuai [2014] No. 13</i></p>

B7 Impairment of Assets (including Long-term Non-financial Assets Measured at Historical Cost, such as Fixed Assets and Intangible Assets, and Assets Held for Sale)

Item	IFRS	New PRC GAAP
Reversal of an impairment loss	<p>Under IFRS, impairment losses recognised in prior periods for an asset other than goodwill should be reversed when the recoverable amount of the asset increases as a result of a change in estimates.</p> <p><i>IAS 36.114</i> <i>IFRS 5.21 and 22</i></p>	<p>Under New PRC GAAP, once an impairment loss is recognised, it <u>shall not be reversed</u> in a subsequent period.</p> <p><i>CAS 8.17</i> <i>IG of CAS, Section 3.1 Chapter 9</i></p>

C Income Statement Items

C1 Share-based Payment

Item	IFRS	New PRC GAAP
Scope	<ul style="list-style-type: none"> Under IFRS, the scope of IFRS 2 extends to include the receipt of <u>goods</u> in exchange for share-based payments, as well as services from employees or non-employees. "Goods" are defined broadly as inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets. IFRS 2 also includes specific requirements on how to account for a share-based payment transaction in which the terms of the arrangement provide either the enterprise or the supplier of those goods or services with a choice of whether the enterprise settles the transaction in cash (or other assets) or by issuing equity instruments. <p><i>IFRS 2.2 and 5</i></p>	<p>New PRC GAAP only addresses share-based payment transactions in which <u>services</u> are received from employees or non-employees. It does not deal specifically with transactions in which goods are received or where there is a choice of settlement.</p> <p><i>CAS11.2</i></p>

C2 Government Grants

Item	IFRS	New PRC GAAP
Scope	<p>In general, under IFRS, government grants are credited to income, either when they become receivable, or at some later date when certain conditions are met. It is not acceptable to credit them directly to equity, except when they arise as a result of government participation in the ownership of the enterprise.</p> <p><i>IAS 20.2(c) and 12</i></p>	<p>New PRC GAAP is similar to IFRS, except that special funds, such as investment grants allocated by the government, are not regarded as government grants if they are clearly defined in official documents as being part of "capital reserve". In such cases they are credited directly to equity.</p> <p><i>CAS 16.AG.I (II)</i></p>
Government grants related to assets	<p>Under IFRS, an enterprise can choose either one of the following methods for recognition of government grants relating to assets:</p> <ul style="list-style-type: none"> the grant is presented as deferred income in the statement of financial position and is recognised in profit or loss on a systematic basis over the useful life of the asset; or the grant is deducted in arriving at the carrying amount of the asset. <p><i>IAS 20.24-27</i></p>	<p>Under New PRC GAAP, only the deferred income method is acceptable and the income shall be amortised to profit or loss on a straight-line basis over the useful life of the asset.</p> <p><i>CAS 16.7</i></p>

D Specific Issues

D1 Land Use Rights

Item	IFRS	New PRC GAAP
Classification of land use rights	<ul style="list-style-type: none"> Under IFRS, the cost of acquiring a land use right (or other leasehold interest in land) is generally recognised as an operating lease prepayment, and cannot be revalued. The only exception is where the land interest is eligible to be classified as investment property (<i>see Item B1 above</i>). There is diversity in practice as to whether the cost of land use rights (or other leasehold interests held under operating leases) is classified as inventory when the land interest is held for re-sale in the ordinary course of business. <p><i>IAS 17.2(a), 19 and 33</i></p>	<p>Under New PRC GAAP, the cost of acquiring a land use right is generally recognised as:</p> <ul style="list-style-type: none"> investment property (<i>see Item B1 above</i>); intangible assets (if held for own use); or inventories <p>depending on the use of the land.</p> <p><i>CAS 6.AG.VI</i></p>

D2 Debt Restructuring

Item	IFRS	New PRC GAAP
Definition	<p>Under IFRS, there is no specific standard on debt restructuring. However, related requirements on accounting for a substantial modification of the terms of a financial liability and accounting for a debt for debt or debt for equity swap are included in IAS 32 and IAS 39.</p>	<p>Under New PRC GAAP, a debt restructuring is defined as an event in which a debtor is <u>in financial difficulty</u> and a creditor grants a concession to the debtor in accordance with a mutual agreement or a court judgment.</p> <p><i>CAS 12.2</i></p>
Accounting by the borrower: treatment of the difference between the carrying amount of a debt extinguished and the consideration given	<p>Under IFRS, if the modification of the terms of a debt instrument meets the derecognition criteria set out in IAS 39 (e.g. <u>the terms are modified substantially</u>), the difference is recognised in profit or loss, unless the gain on debt restructuring is in substance a capital injection from a shareholder, in which case it would be credited to equity (capital reserve).</p> <p><i>IAS 39.40 and 41</i></p>	<p>Under New PRC GAAP, irrespective of whether the terms are modified substantially, the difference shall be recognised in profit or loss, unless such forgiveness of debt by a shareholder (including controlling shareholders and non-controlling shareholders) or its subsidiaries is in substance a capital injection. In substance capital injection shall be treated as an equity transaction, and therefore any gain is recognised in equity (capital reserve).</p> <p><i>CAS 12.4 and 5</i> <i>Caikuihan [2008] No. 60</i> <i>Item 6 of Bulletin No. 5</i></p>
Accounting by the lender	<p>Under IFRS, when a debt restructuring involves the modification of the terms of a debt, the lender shall adjust the carrying amount of the receivable to reflect the revised estimates of future receipts. The carrying amount of the receivable is recalculated by computing the present value of the estimated future cash flows using the financial instrument's <u>original effective interest rate</u>. The adjustment is recognised in profit or loss.</p> <p><i>IAS 39.AG 8</i></p>	<p>Unlike IFRS, under New PRC GAAP, the difference recognised in profit or loss in such circumstances is calculated by comparing <u>the fair value</u> of the receivable after the terms have been modified against the previous carrying amount.</p> <p><i>CAS 12.9~12</i></p>

D3 Related Party Disclosures

Item	IFRS	New PRC GAAP
Related party relationships and transactions	<ul style="list-style-type: none"> IFRS does not exempt government-related entities from the definition of a related party. Instead IFRS provides a relief from the full disclosure requirements of IAS 24 for government-related entities. However, a government-related entity that applies the above relief is required to disclose the following: <ul style="list-style-type: none"> the name of the government and the nature of its relationship with the reporting entity; the nature and amount of each individually significant transaction; and a qualitative and quantitative indication of extent for other transactions that are collectively, but not individually, significant. <p><i>IAS 24.25 and 26</i></p>	<p>Under PRC GAAP, <u>state owned enterprises are not regarded as related parties simply because they are under common control from the State, if no other related party relationships exist between them. Therefore, transactions among those enterprises are not required to be disclosed as related party transactions.</u></p> <p><i>CAS 36.6</i></p>

D4 Segment Reporting

Item	IFRS	New PRC GAAP
Scope	<p>Under IFRS, only the following types of enterprises are required to comply with IFRS 8, <i>Operating segments</i>:</p> <ul style="list-style-type: none"> enterprises whose debt or equity instruments are traded in a public market; or enterprises that file, or are in the process of filing, their financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market. <p>Other enterprises can choose whether or not they wish to disclose segment information.</p> <p><i>IFRS 8.2</i></p>	<p><u>All enterprises which adopt New PRC GAAP are required to comply with CAS No. 35— <i>Segment Reporting</i>.</u></p> <p><i>Item 8 of Bulletin No.3 IG of CAS, Section 1 Chapter 36</i></p>
Measurement	<p>Under IFRS, the segment information disclosed should be consistent with that used internally by the chief operating decision maker.</p> <p><i>IFRS 8.25</i></p>	<p>Under New PRC GAAP, the segment information disclosed shall be prepared in conformity with the accounting policies adopted for preparing the financial statements for general purposes.</p> <p><i>IG of CAS, Section 3.3.2 Chapter 36</i></p>

D5 Safety production fund

Item	IFRS	New PRC GAAP
Accounting treatments for safety production fund	IFRS does not have specific provisions for safety production fund. Hence, such fund is accounted for according to the general principles of <i>IAS 37 - Provisions, Contingent Liabilities and Contingent Assets</i> and other applicable standards.	<p>Unlike IFRS, New PRC GAAP specifies the accounting treatment of safety production fund:</p> <ul style="list-style-type: none"> • Pursuant to government's relevant regulations, safety production fund accrued by companies engaged in high-risk industry shall be recognised as costs of related assets or current period profit or loss, and recorded in a specific reserve within equity accordingly. • On utilisation of the safety production fund for expense expenditures, the amount utilised shall be reversed from the specific reserve. • On utilisation of the safety production fund for fixed assets, the capital expenditure shall be included in construction in progress and transferred to fixed assets when related assets are ready for their intended use. The amount utilised would be reversed from the specific reserve while the corresponding amount is recognised in accumulated depreciation. Such fixed assets shall not be depreciated in subsequent periods. <p><i>IG of CAS, Section 2.2.1 Chapter 5</i></p>

III Future development of New PRC GAAP

As outlined in the “Roadmap of continuous convergence between China Accounting Standards and IFRS” (Caikuai [2010] No. 10) (Roadmap) issued by the MOF, New PRC GAAP will continue its convergence with IFRS. The MOF encourages accounting professionals and entities in China to get more deeply involved in IFRS standard-setting by considering China’s circumstances and providing recommendations.

In the Roadmap, the MOF clearly indicates that the PRC will keep track of the developments and revisions to IFRS, and that the timetable of revisions to New PRC GAAP will be kept consistent with that of the IASB. In this regard, Ms. Yang Min, the head of the MOF’s Accounting Regulatory Department, has emphasised that the approach to developing New PRC GAAP in the future will remain to converge rather than directly adopt IFRS. This is in view of a number of China-specific factors, including its legal environment, language and customs, a focus on the robust application of standards and resolution of implementation issues, and the need to maintain the initiative and flexibility in standard-setting while accounting standards are more globalised.⁴

In May and July 2014, the IASB issued *IFRS 15—Revenue from Contracts with Customers* and *IFRS 9—Financial Instruments*, which take effect on 1 January 2017 and 2018, respectively. These two standards are expected to be incorporated into New PRC GAAP through continuous convergence with IFRS. Therefore, for enterprises that are likely to be significantly affected by these potential New PRC GAAP pronouncements, an understanding of the principles under these new IFRSs could be an advantage to prepare for a smooth adoption.

If you are interested in following the developments in IFRS as they unfold, please ask your usual KPMG contact to add your details to our distribution list of newsletters and other publications on IFRS. You may also follow the projects directly through the information posted on the IASB’s official website, www.iasb.org.

⁴ With reference the “International convergence of accounting standards and the convergence strategy of China Accounting Standards” written by the head of the MOF’s Accounting Regulatory Department Ms. Yang Min, etc. and published in “Accounting Research” (2011.10).

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Since 2006, KPMG China has assisted many enterprises in their New PRC GAAP conversion projects, providing a range of services and gaining a wealth of experience in areas including accounting and financial reporting conversion, information technology system upgrades, business impact assessment and staff training.

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