SSAP 5
STATEMENT OF STANDARD ACCOUNTING PRACTICE 5
EARNINGS PER SHARE

(Issued March 1984; Revised March 1995 and May 1998)

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

Introduction

The objective of this Statement is to prescribe principles for the determination and presentation of earnings per share which will improve performance comparisons among different enterprises in the same period and among different accounting periods for the same enterprise. The focus of this Statement is on the denominator of the earnings per share calculation. Even though earnings per share data has limitations because of different accounting policies used for determining "earnings", a consistently determined denominator enhances financial reporting.

Scope

Enterprises whose shares are publicly traded

1. This Statement should be applied by enterprises whose ordinary shares or potential ordinary shares are publicly traded and by enterprises that are in the process of issuing ordinary shares or potential ordinary shares in public securities markets.

2. When both the holding company's own financial statements and consolidated financial statements are presented, the information called for by this Statement need be presented only on the basis of consolidated information.

3. Users of the financial statements of a holding company are usually concerned with, and need to be informed about, the results of operations of the group as a whole.

Enterprises whose shares are not publicly traded

4. An enterprise which has neither ordinary shares nor potential ordinary shares which are publicly traded, but which discloses earnings per share, should calculate and disclose earnings per share in accordance with this Statement.

5. An enterprise which has neither ordinary shares nor potential ordinary shares which are publicly traded is not required to disclose earnings per share. However, comparability in financial reporting among enterprises is maintained if any such enterprise that chooses to disclose earnings per share calculates earnings per share in accordance with the principles in this Statement.

Definitions

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

An "ordinary share" is an equity instrument that is subordinate to all other classes of equity instruments.

A "potential ordinary share" is a financial instrument or other contract that may entitle its holder to ordinary shares.

"Warrants" or "options" are financial instruments that give the holder the right to purchase ordinary shares.

A "financial instrument" is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

An "equity instrument" is any contract that evidences a residual interest in the assets of an enterprise after deducting all of its liabilities.

"Fair value" is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

7. Ordinary shares participate in the net profit for the period only after other types of shares such as preference shares. An enterprise may have more than one class of ordinary shares. Ordinary shares of the same class will have the same rights to receive dividends.

8. Examples of potential ordinary shares are:

   a. debt or equity instruments, including preference shares, that are convertible into ordinary shares;

   b. share warrants and options;

   c. employee plans that allow employees to receive ordinary shares as part of their remuneration and other share purchase plans; and

   d. shares which would be issued upon the satisfaction of certain conditions resulting from contractual arrangements, such as the purchase of a business or other assets.

Measurement

Basic earnings per share

9. Basic earnings per share should be calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Earnings - Basic

10. For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to ordinary shareholders should be the net profit or loss for the period after deducting preference dividends.

11. All items of income and expense which are recognised in a period, including tax expense, extraordinary items and minority interests, are included in the determination of the net profit or loss for the period (see SSAP 2 "Extraordinary items and prior period adjustments"). The amount of net profit attributable to preference shareholders, including preference dividends for the period, is deducted from the net profit for the period (or added to the net loss for the period) in order to calculate the net profit or loss for the period attributable to ordinary shareholders.

12. The amount of preference dividends that is deducted from the net profit for the period is:

    a. the amount of any preference dividends on non-cumulative preference shares declared in respect of the period; and

    b. the full amount of the required preference dividends for cumulative preference shares for the period, whether or not the dividends have been declared. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

Per share - Basic

13. For the purpose of calculating basic earnings per share, the number of ordinary shares should be the weighted average number of ordinary shares outstanding during the period.

14. The weighted average number of ordinary shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or lesser number of shares being outstanding at any time. It is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares repurchased or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the specific shares are outstanding as a proportion of the total number of days in the period; a reasonable approximation of the weighted average is adequate in many circumstances.

Example - Weighted Average Number of Shares

		Shares Issued/(Repurchased)	*Shares Outstanding*
1 January 20X1	Balance at beginning of year		1,700
31 May 20X1	Issue of new shares for cash	800	2,500
1 December 20X1	Purchase of own shares for cash	(250)	2,250
31 December 20X1	Balance at end of year		2,250

Computation of weighted average:
(1,700 x 5/12) + (2,500 x 6/12) + (2,250 x 1/12) = 2,146 shares *or :*
(1,700 x 12/12) + (800 x 7/12) - (250 x 1/12) = 2,146 shares

15. In most cases, shares are included in the weighted average number of shares from the date consideration is receivable (which is generally the date of their issue), for example:

a. ordinary shares issued in exchange for cash are included when cash is receivable;

b. ordinary shares issued on the voluntary reinvestment of dividends on ordinary or preference shares are included at the dividend payment date;

c. ordinary shares issued as a result of the conversion of a debt instrument to ordinary shares are included as of the date interest ceases accruing;

d. ordinary shares issued in place of interest or principal on other financial instruments are included as of the date interest ceases accruing;

e. ordinary shares issued in exchange for the settlement of a liability of the enterprise are included as of the settlement date;

f. ordinary shares issued as consideration for the acquisition of an asset other than cash are included as of the date on which the acquisition is recognised; and

g. ordinary shares issued for the rendering of services to the enterprise are included as the services are rendered.

In these and other cases the timing of the inclusion of ordinary shares is determined by the specific terms and conditions attaching to their issue. Due consideration should be given to the substance of any contract associated with the issue.

16. Ordinary shares issued as part of the purchase consideration of a business combination which is an acquisition are included in the weighted average number of shares as of the date of the acquisition because the acquirer incorporates the results of the operations of the acquiree into its profit and loss account as from the date of acquisition. Ordinary shares issued as part of a business combination which is a merger are included in the calculation of the weighted average number of shares for all periods presented because the financial statements of the combined enterprise are prepared as if the combined entity had always existed. Therefore, the number of ordinary shares used for the calculation of basic earnings per share in a business combination which is a merger is the aggregate of the weighted average number of shares of combined enterprises, adjusted to equivalent shares of the enterprise whose shares are outstanding after the combination.

17. Where ordinary shares are issued in partly paid form, these partly paid shares are treated as a fraction of an ordinary share to the extent that they were entitled to participate in dividends relative to a fully paid ordinary share during the financial period.

18. Ordinary shares which are issuable upon the satisfaction of certain conditions (contingently issuable shares) are considered outstanding, and included in the computation of basic earnings per share from the date when all necessary conditions have been satisfied. Outstanding ordinary shares that are contingently returnable (that is subject to recall) are treated as contingently issuable shares.

19. The weighted average number of ordinary shares outstanding during the period and for all periods presented should be adjusted for events, other than the conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding, without a corresponding change in resources.

20. Ordinary shares may be issued, or the number of shares outstanding may be reduced, without a corresponding change in resources. Examples include:

    a. a capitalisation or bonus issue;

    b. a bonus element in any other issue, for example a bonus element in a rights issue to existing shareholders;

    c. a share split; and

    d. a reverse share split (consolidation of shares).

21. In a capitalisation or bonus issue or a share split, ordinary shares are issued to existing shareholders for no additional consideration. Therefore, the number of ordinary shares outstanding is increased without an increase in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period reported. For example, on a two-for-one bonus issue, the number of shares outstanding prior to the issue is multiplied by a factor of three to obtain the new total number of shares, or by a factor of two to obtain the number of additional shares.

22. With reference to 20(b) above, the issue of ordinary shares at the time of exercise or conversion of potential ordinary shares will not usually give rise to a bonus element, since the potential ordinary shares will usually have been issued for full value, resulting in a proportionate change in the resources available to the enterprise. In a rights issue, the exercise price is often less than the fair value of the shares. Therefore such a rights issue includes a bonus element. The number of ordinary shares to be used in calculating basic earnings per share for all periods prior to the rights issue is the number of ordinary shares outstanding prior to the issue, multiplied by the following factor:

$$\frac{\text{Fair value per share immediately prior to the exercise of rights}}{\text{Theoretical ex-rights fair value per share}}$$

The theoretical ex-rights fair value per share is calculated by adding the aggregate fair value of the shares immediately prior to the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights themselves are to be publicly traded separately from the shares prior to the exercise date, fair value for the purposes of this calculation is established at the close of the last day on which the shares are traded together with the rights.

Example - Bonus Issue

Net profit 20X0	HK$180
Net profit 20X1	HK$600
Ordinary shares outstanding until 30 September 20X1	200 shares
Bonus issue 1 October 20X1	Two ordinary shares for each ordinary share outstanding at 30 September 20X1 200 X 2 = 400 shares
Earnings per share 20X1	$\frac{600}{(200 + 400)}$ = HK$1.00
Adjusted eanings per share 20X0	$\frac{180}{(200 + 400)}$ = HK$0.30

Since the bonus issue is an issue without consideration, the issue is treated as if it had occurred prior to the beinning of 20X0, the earliest period reported.

Example - Rights Issue

Net profit	20X0:HK$1,100; 20X1:HK$1,500; 20X2:HK$1,800
Shares outstanding prior to rights issue	500 shares
Rights issue	One new share for each five outstanding (100 new shares in total) Exercise price:HK$5.00 Last date to exercise rights: 1 March 20X1 (all rights being exercised on this date)
Fair value of one ordinary share immediately prior to exercise on 1 March 20X1	HK$11.00

Computation of theoretical ex-rights value per share

$$\frac{\text{Fair value of all outstanding shares} + \text{total amount received from exercise of rights}}{\text{Number of shares outstanding prior to exercise} + \text{number of shares issued in the exercise}}$$

$$\frac{(11.00 \times 500) + (5.00 \times 100)}{500 + 100}$$

Theoretical ex-rights value per share = HK$10.00

Computation of adjustment factor

$$\frac{\text{Fair value per shares prior to exercise of right}}{\text{Theoretical ex-rights value per share}} \qquad \frac{11.00}{10.00} \qquad = \quad 1.1$$

Computation of earnings per share

	20X0	20X1	20X2
20X0 EPS as originally reported: 1,100/500	HK$2.20		
20X0 EPS restated for rights issue: 1,100/(500 X 1.1)	HK$2.00		
20X1 EPS including effects of rights issue		HK$2.54	

$$\frac{1{,}500}{(500 \times 1.1 \times 2/12) + ((500+100) \times 10/12)}$$

	20X0	20X1	20X2
20X2 EPS 1,800/(500+100)			HK$3.00

Diluted earnings per share

23. ***For the purpose of calculating diluted earnings per share, the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding should be adjusted for the effects of all dilutive potential ordinary shares.***

24. The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all dilutive potential ordinary shares that were outstanding during the period, that is:

a. the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

b. the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Earnings - Diluted

25. ***For the purpose of calculating diluted earnings per share, the amount of net profit or loss for the period attributable to ordinary shareholders, as calculated in accordance with paragraph 10, should be adjusted by the after-tax effect of:***

a. ***any dividends on dilutive potential ordinary shares which have been deducted in arriving at the net profit attributable to ordinary shareholders as calculated in accordance with paragraph 10;***

b. ***interest recognised in the period for the dilutive potential ordinary shares; and***

c. ***any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.***

26. After the potential ordinary shares are converted into ordinary shares, the dividends, interest and other income or expense associated with those potential ordinary shares will no longer be incurred. Instead, the new ordinary shares will be entitled to participate in the net profit attributable to ordinary shareholders. Therefore, the net profit for the period attributable to ordinary shareholders calculated in accordance with paragraph 10 is increased by the amount of dividends, interest and other income or expense that will be saved on the conversion of the dilutive potential ordinary shares into ordinary shares. The expenses associated with potential ordinary shares include fees and discount or premium that are accounted for as yield adjustments. The amounts of dividends, interest and other income or expense are adjusted for any taxes, borne by the enterprise, that are attributable to them.

Example - Convertible Bonds	
Net profit	HK$1,004
Ordinary shares outstanding	1,000 shares
Basic earnings per share	HK$1.00
Convertible bonds	100 bonds
Each block of 10 bonds is convertible into three ordinary shares	
Interest expense for the current year relating to the liability component of the convertible bond	HK$10
Current and deferred tax relating to that interest expense	HK$2
Note: the interest expense includes amortisation of the discount arising on initial recognition of the liability component.	
Adjusted net profit	1,004 + 10 - 2 = HK$1,012
Number of ordinary shares resulting from conversion of bond	30 shares
Number of ordinary shares used to compute diluted earnings per share	1,000 + 30 = 1,030 shares
Diluted earnings per share	$\frac{1,012}{1,030}$ = HK$0.98

27. The conversion of some potential ordinary shares may lead to consequential changes in other income or expenses. For example, the reduction of interest expense related to potential ordinary shares and the resulting increase in net profit for the period may lead to an increase in the expense relating to a non-discretionary employee profit sharing plan. For the purpose of calculating diluted earnings per share, the net profit or loss for the period is adjusted for any such consequential changes in income or expense.

Per share - Diluted

28. For the purpose of calculating diluted earnings per share, the number of ordinary shares should be the weighted average number of ordinary shares calculated in accordance with paragraphs 13 and 19, plus the weighted average number of ordinary shares which would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Dilutive potential ordinary shares should be deemed to have been converted into ordinary shares at the beginning of the period or, if later, the date of the issue of the potential ordinary shares.

29. The number of ordinary shares which would be issued on the conversion of dilutive potential ordinary shares is determined from the terms of the potential ordinary shares. The computation assumes the most advantageous conversion rate or exercise price from the standpoint of the holder of the potential ordinary shares.

30. As in the computation of basic earnings per share, ordinary shares whose issue is contingent upon the occurrence of certain events shall be considered outstanding and included in the computation of diluted earnings per share if the conditions have been met (the events occurred). Contingently issuable shares should be included as of the beginning of the period (or as of the date of the contingent share agreement, if later). If the conditions have not been met, the number of contingently issuable shares included in the diluted earnings per share computation is based on the number of shares that would be issuable if the end of the reporting period was the end of the contingency period. Restatement is not permitted if the conditions are not met when the contingency period expires. The provisions of this paragraph apply equally to potential ordinary shares that are issuable upon the satisfaction of certain conditions (contingently issuable potential ordinary shares).

31. A subsidiary, joint venture or associated company may issue potential ordinary shares which are convertible into either ordinary shares of the subsidiary, joint venture or associated company, or ordinary shares of the reporting enterprise. If these potential ordinary shares of the subsidiary, joint venture or associated company have a dilutive effect on the consolidated basic earnings per share of the reporting enterprise, they are included in the calculation of diluted earnings per share.

32. For the purpose of calculating diluted earnings per share, an enterprise should assume the exercise of dilutive options and other dilutive potential ordinary shares of the enterprise. The assumed proceeds from these issues should be considered to have been received from the issue of shares at fair value. The difference between the number of shares issued and the number of shares that would have been issued at fair value should be treated as an issue of ordinary shares for no consideration.

33. Fair value for this purpose is calculated on the basis of the average price of the ordinary shares during the period.

34. Options and other share purchase arrangements are dilutive when they would result in the issue of ordinary shares for less than fair value. The amount of the dilution is fair value less the issue price. Therefore, in order to calculate diluted earnings per share, each such arrangement is treated as consisting of :

    a. a contract to issue a certain number of ordinary shares at their average fair value during the period. The shares so to be issued are fairly priced and are assumed to be neither dilutive nor anti-dilutive. They are ignored in the computation of diluted earnings per share; and

    b. a contract to issue the remaining ordinary shares for no consideration. Such ordinary shares generate no proceeds and have no effect on the net profit attributable to ordinary shares outstanding. Therefore such shares are dilutive and they are added to the number of ordinary shares outstanding in the computation of diluted earnings per share.

Example - Effects of Share Options on Diluted Earnings Per Share

Net profit for year 20X1	HK$1,200,000
Weighted average number of ordinary shares outstanding during year 20X1	500,000 shares
Average fair value of one ordinary share during year 20X1	HK$20.00
Weighted average number of shares under option during year 20X1	100,000 shares
Exercise price for shares under option during year 20X1	HK$15.00

Computation of earnings per share

	per share	*earnings*	*shares*
Net profit for year 20X1		HK$1,200,000	
Weighted averages shares outstanding during 20X1			500,000
Basic earnings per share	HK$2.40		
Number of shares under option			100,000
Number of shares that would have been issued at fair value: (100,000 x 15.00)/20.00		*	(75,000)
Diluted earnings per share	HK$2.29	HK$1,200,000	525,000

** Note:The earnings have not been increased as the total number of shares has been increased only by the number of shares (25,000) deemed for the purpose of the computation to have been issued for no consideration (see paragraph 34(b) above).*

35. This method of calculating the effect of options and other share purchase arrangements does not imply that the enterprise has entered into a transaction to purchase its own shares, which may not be practicable in certain circumstances.

36. To the extent that partly paid shares are not entitled to participate in dividends during the financial period they are considered the equivalent of warrants or options.

Dilutive potential ordinary shares

37. Potential ordinary shares should be treated as dilutive when, and only when, their conversion to ordinary shares would decrease net profit per share from continuing ordinary operations.

38. An enterprise uses net profit from continuing ordinary activities as "the control number" that is used to establish whether potential ordinary shares are dilutive or anti-dilutive. The net profit from continuing ordinary activities is the net profit from ordinary activities (as defined in SSAP 2) after deducting preference dividends and after excluding items relating to discontinued operations; therefore, it excludes extraordinary items and the effects of changes in accounting policies and of corrections of fundamental errors.

39. Potential ordinary shares are anti-dilutive when their conversion to ordinary shares would increase earnings per share from continuing ordinary operations or decrease loss per share from continuing ordinary operations. The effects of anti-dilutive potential ordinary shares are ignored in calculating diluted earnings per share.

40. In considering whether potential ordinary shares are dilutive or anti-dilutive, each issue or series of potential ordinary shares is considered separately rather than in aggregate. The sequence in which potential ordinary shares are considered may affect whether or not they are dilutive. Therefore, in order to maximise the dilution of basic earnings per share, each issue, or series of potential ordinary shares is considered in sequence from the most dilutive to the least dilutive.

Example - Determining the Order in Which to Include Dilutive Securities in the Calculation of Weighted Average Number of Shares

Earnings - Net profit attributable to ordinary shareholders	HK$10,000,000
Ordinary shares outstanding	2,000,000 shares
Average fair value of one ordinary share durinng year	HK$75.00

Potential Ordinary Shares

Options	100,000 options with exercise price of HK$60.00
Convertible Preference Shares	800,000 shares entitled to a cumulative dividend of HK$8.00 per share. Each preference share is convertible to two ordinary shares.
5% Convertible Bonds	nominal amount HK$100,000,000. Each HK$1,000 bond is convertible to 20 ordinary shares. There is no amortisation of premium or discount affecting the determination of interest expense.
Tax rate	20%

Increase in Earnings Attributable to Ordinary Shareholders on Conversion of Potential Ordinary Shares

	Increase in Earnings	*Increase in Number of Ordinary Shares*	*Earnings per Incremental Share*
Options Increase in earnings Incremental shares issued for no consideration 100,000 x (75-60)/75	NIL	20,000	NIL
Convertible Preference Shares			
Increase in net profit 800,000 x 8	HK$6,400,000		
Incremental shares 800,000 x 2		1,600,000	HK$4.00
5% Convertible Bonds			
Increase in net profit 100,000,000 x 0.05x(1-0.2)	HK$4,000,000		
Incremental shares(100,000,000/1,000) x 20		2,000,000	HK$2.00

Computation of Diluted Earnings Per Share

	Net Profit Attributable (HK$)	*Ordinary Shares*	*Per Share*
As reported	10,000,000	2,000,000	HK$5.00
Options	-	20,000	
	10,000,000	2,020,000	HK$4.95 Dilutive
5% Convertible Bonds	4,000,000	2,000,000	
	14,000,000	4,020,000	HK$3.48 Dilutive
Convertible Preference Shares	6,400,000	1,600,000	
	20,400,000	5,620,000	HK$3.63 Anti-Dilutive

Since diluted earnings per share is increased when taking the convertible preference shares into account (from HK$3.48 to HK$3.63), the convertible preference shares are anti-dilutive and are ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share is HK$3.48.

This example does not illustrate the classification of convertible financial instruments between liabilities and equity or the classification of related interest and dividends between expenses and equity.

41. Potential ordinary shares are weighted for the period they were outstanding. Potential ordinary shares that were cancelled or allowed to lapse during the reporting period are included in the computation of diluted earnings per share only for the portion of the period during which they were outstanding. Potential ordinary shares that have been converted into ordinary shares during the reporting period are included in the calculation of diluted earnings per share from the beginning of the period to the date of conversion; from the date of conversion, the resulting ordinary shares are included in both basic and diluted earnings per share.

Restatement

42. If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation or bonus issue or share split or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented should be adjusted retrospectively. If these changes occur after the balance sheet date but before issue of the financial statements, the per share calculations for those and any prior period financial statements presented should be based on the new number of shares. When per share calculations reflect such changes in the number of shares, that fact should be disclosed. In addition, basic and diluted earnings per share of all periods presented should be adjusted for:

a. the effects of fundamental errors, and adjustments resulting from changes in accounting policies, dealt with in accordance with SSAP 2; and

b. the effects of a business combination which is a merger.

43. An enterprise does not restate diluted earnings per share of any prior period presented for changes in the assumptions used or for the conversion of potential ordinary shares into ordinary shares outstanding.

44. An enterprise is encouraged to disclose a description of ordinary share transactions or potential ordinary share transactions, other than capitalisation issues and share splits, which occur after the balance sheet date when they are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions (see ~~SSAP 8 "Accounting for contingencies" and~~ SSAP 9 "Events after the balance sheet date" ~~"Accounting for post alance sheet events"~~). Examples of such transactions include:

a. the issue of shares for cash;

b. the issue of shares when the proceeds are used to repay debt or preference shares outstanding at the balance sheet date;

c. the redemption of ordinary shares outstanding;

d. the conversion or exercise of potential ordinary shares, outstanding at the balance sheet date, into ordinary shares;

e. the issue of warrants, options or convertible securities; and

f. the achievement of conditions that would result in the issue of contingently issuable shares.

45. Earnings per share amounts are not adjusted for such transactions occurring after the balance sheet date because such transactions do not affect the amount of capital used to produce the net profit or loss for the period.

Presentation

46. An enterprise should present basic and diluted earnings per share on the face of the profit and loss account for each class of ordinary shares that has a different right to share in the net profit for the period. An enterprise should present basic and diluted earnings per share with equal prominence for all periods presented.

47. This Statement requires an enterprise to present basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).

Disclosure

48. An enterprise should disclose the following:

a. the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period; and

b. ***the weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.***

49. Financial instruments and other contracts generating potential ordinary shares may incorporate terms and conditions which affect the measurement of basic and diluted earnings per share. These terms and conditions may determine whether or not any potential ordinary shares are dilutive and, if so, the effect on the weighted average number of shares outstanding and any consequent adjustments to the net profit attributable to ordinary shareholders. The disclosure of such terms and conditions is encouraged by this Statement.

50. If an enterprise discloses, in addition to basic and diluted earnings per share, per share amounts using a reported component of net profit other than net profit or loss for the period attributable to ordinary shareholders, such amounts should be calculated using the weighted average number of ordinary shares determined in accordance with this Statement. If a component of net profit is used which is not reported as a line item in the profit and loss account, a reconciliation should be provided between the component used and a line item which is reported in the profit and loss account. Basic and diluted per share amounts should be disclosed with equal prominence.

51. An enterprise may wish to disclose more information than this Statement requires. Such information may help the users to evaluate the performance of the enterprise and may take the form of per share amounts for various components of net profit. Such disclosures are encouraged. However, when such amounts are disclosed, the denominators are calculated in accordance with this Statement in order to ensure the comparability of the per share amounts disclosed.

Effective date

52. The accounting practices set out in this Statement should be regarded as standard in respect of financial statements relating to periods beginning on or after 1 January 1998. Earlier adoption is encouraged but not required.

Transitional arrangements

53. Where the adoption of this Statement constitutes a change in accounting policy, an enterprise should adjust its financial statements in accordance with SSAP 2 "Extraordinary items and prior period adjustments". In addition, where historical summaries of financial information are provided, these should be adjusted to reflect the accounting practices set out in this Statement.

Compliance with International Accounting Standards

54. Compliance with this Statement ensures compliance with International Accounting Standard IAS 33 "Earnings Per Share".