

SSAP 30
STATEMENT OF STANDARD ACCOUNTING PRACTICE 30
BUSINESS COMBINATIONS

(Issued January 2001)

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

Objective

The objective of this Statement is to prescribe the accounting treatment for business combinations. The Statement covers an acquisition of one enterprise by another. Accounting for an acquisition involves determination of the cost of the acquisition, allocation of the cost over the identifiable assets and liabilities of the enterprise being acquired and accounting for the resulting goodwill or negative goodwill, both at acquisition and subsequently. Other accounting issues include the determination of the minority interest amount, accounting for acquisitions which occur over a period of time, subsequent changes in the cost of acquisition or in the identification of assets and liabilities, and the disclosures required.

Scope

1. ***This Statement should be applied in accounting for business combinations.***
2. A business combination may be structured in a variety of ways which are determined for legal, taxation or other reasons. It may involve the purchase by an enterprise of the equity of another enterprise or the purchase of the net assets of a business enterprise. It may be effected by the issue of shares or by the transfer of cash, cash equivalents or other assets. The transaction may be between the shareholders of the combining enterprises or between one enterprise and the shareholders of the other enterprise. The business combination may involve the establishment of a new enterprise to have control over the combining enterprises, the transfer of the net assets of one or more of the combining enterprises to another enterprise or the dissolution of one or more of the combining enterprises. When the substance of the transaction is consistent with the definition of a business combination in this Statement, the accounting and disclosure requirements contained in this Statement are appropriate irrespective of the particular structure adopted for the combination.
3. A business combination may result in a parent-subsidary relationship in which the acquirer is the parent and the acquiree is a subsidiary of the acquirer. In such circumstances, the acquirer applies this Statement in its consolidated financial statements. It includes its interest in the acquiree in its separate financial statements as an investment in a subsidiary (see SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries").
4. This Statement defines a subsidiary as "an enterprise that is controlled by another enterprise". For this purpose, control is defined as the power to govern the financial and operating policies of another enterprise so as to obtain benefits from its activities. This definition of subsidiary could result in an investee enterprise being classified as a subsidiary when it does not meet the definitions of a subsidiary as set out in section 2(4) of the Companies Ordinance.

5. In issuing this Statement, the Hong Kong Society of Accountants has obtained legal opinion on the legality of introducing a requirement in this Statement to consolidate certain entities which are not subsidiaries as defined by section 2(4) of the Companies Ordinance in the group accounts of a company incorporated under the Companies Ordinance ("a Hong Kong incorporated company"). The legal opinion states that the definitions of "subsidiary" and "holding company" in sections 2(4) and 2(7) of the Companies Ordinance are exhaustive for the purposes of group accounts as defined by section 124(1) of the Companies Ordinance ("group accounts"). Accordingly, a Hong Kong incorporated company may not consolidate a company that does not meet the definition of a subsidiary in the Companies Ordinance.
6. The principles laid down in this Statement are applicable to Hong Kong incorporated companies except to the extent that the legal constraints do not permit them to include in their group accounts an entity which does not meet the definition of a subsidiary in the Companies Ordinance. However, this Statement requires Hong Kong incorporated companies to disclose certain additional information to enable users of the consolidated financial statements (which are the form of group accounts required under SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries") to assess the effects as if this Statement had been fully complied with.
7. A business combination may involve the purchase of the net assets, including any goodwill, of another enterprise rather than the purchase of the shares in the other enterprise. Such a business combination does not result in a parent-subsidiary relationship. In such circumstances, the acquirer applies this Statement in its separate financial statements and consequently in its consolidated financial statements.
8. A business combination may give rise to a legal merger. The requirements for legal mergers differ among countries. In Hong Kong, a legal merger normally takes the form of a scheme of arrangement. Many legal mergers arise as part of the restructuring or reorganisation of a group and are not dealt with in this Statement because they are transactions among enterprises under common control. Group reconstructions are covered by SSAP 27 "Accounting for group reconstructions". Any business combination that results in two companies becoming members of the same group is dealt with as an acquisition in consolidated financial statements under the requirements of this Statement.
9. This Statement does not deal with the separate financial statements of a parent other than in the circumstances described in paragraph 7.
10. This Statement does not deal with:
 - a. transactions among enterprises under common control; and
 - b. interests in joint ventures (see SSAP 21 "Accounting for interests in joint ventures") and the financial statements of joint ventures.

Definitions

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

*A **business combination** is the bringing together of separate enterprises into one economic entity as a result of one enterprise obtaining control over the net assets and operations of another enterprise.*

*An **acquisition** is a business combination in which one of the enterprises, **the acquirer**, obtains control over the net assets and operations of another enterprise, **the acquiree**, in exchange for the transfer of assets, incurrence of a liability or issue of equity.*

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

*A **parent** is an enterprise that has one or more subsidiaries.*

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

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiaries, by the parent.

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.

Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

Date of acquisition is the date on which control of the net assets and operations of the acquiree is effectively transferred to the acquirer.

Specific provision for Hong Kong incorporated companies

12. *In preparing consolidated financial statements of a Hong Kong incorporated company, only companies that fall within the definition of a subsidiary as set out in section 2(4) of the Companies Ordinance may be consolidated. Therefore, for the purposes of applying this Statement, Hong Kong incorporated companies should use the definition of a subsidiary as set out in section 2(4) of the Companies Ordinance where it conflicts with the definition in paragraph 11 above.*

Nature of a business combination

Acquisitions

13. This Statement takes the position that, in all business combinations, one of the combining enterprises obtains control over the other combining enterprise, thereby enabling an acquirer to be identified. Control is presumed to be obtained when one of the combining enterprises acquires more than one half of the voting rights of the other combining enterprise unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Even when one of the combining enterprises does not acquire more than one half of the voting rights of the other combining enterprise, it is usually still possible to identify an acquirer when one of the combining enterprises, as a result of the business combination, acquires:
- a. power over more than one half of the voting rights of the other enterprise by virtue of an agreement with other investors;
 - b. power to govern the financial and operating policies of the other enterprise under a statute or an agreement;
 - c. power to appoint or remove the majority of the members of the board of directors or equivalent governing body of the other enterprise; or
 - d. power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other enterprise.
14. Although it may sometimes be difficult to identify an acquirer, there are almost always indications that one exists. For example:
- a. the fair value of one enterprise is significantly greater than that of the other combining enterprise. In such cases, the larger enterprise is the acquirer;
 - b. the business combination is effected through an exchange of voting common shares for cash. In such cases, the enterprise giving up cash is the acquirer; or

- c. the business combination results in the management of one enterprise being able to dominate the selection of the management team of the resulting combined enterprise. In such cases the dominant enterprise is the acquirer.

Reverse acquisitions

- 15. Occasionally an enterprise obtains ownership of the shares of another enterprise but as part of the exchange transaction issues enough voting shares, as consideration, such that control of the combined enterprise passes to the owners of the enterprise whose shares have been acquired. This situation is described as a reverse acquisition. Although legally the enterprise issuing the shares may be regarded as the parent or continuing enterprise, the enterprise whose shareholders now control the combined enterprise is the acquirer enjoying the voting or other powers identified in paragraph 13. The enterprise issuing the shares is deemed to have been acquired by the other enterprise; the latter enterprise is deemed to be the acquirer and applies the purchase method to the assets and liabilities of the enterprise issuing the shares.

Acquisitions

Accounting for acquisitions

- 16. *An acquisition should be accounted for by use of the purchase method of accounting as set out in paragraphs 18 to 73.*
- 17. The use of the purchase method results in an acquisition of an enterprise being accounted for similarly to the purchase of other assets. This is appropriate since an acquisition involves a transaction in which assets are transferred, liabilities are incurred or capital is issued in exchange for control of the net assets and operations of another enterprise. The purchase method uses cost as the basis for recording the acquisition and relies on the exchange transaction underlying the acquisition for determination of the cost.

Date of acquisition

- 18. *As from the date of acquisition, an acquirer should:*
 - a. *incorporate into the income statement the results of operations of the acquiree; and*
 - b. *recognise in the balance sheet the identifiable assets and liabilities of the acquiree and any goodwill or negative goodwill arising on the acquisition.*
- 19. The date of acquisition is the date on which control of the net assets and operations of the acquiree is effectively transferred to the acquirer and the date when application of the purchase method commences. The results of operations of an acquired business are included in the financial statements of the acquirer as from the date of acquisition, which is the date on which control of the acquiree is effectively transferred to the acquirer. In substance, the date of acquisition is the date from when the acquirer has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is not deemed to have been transferred to the acquirer until all conditions necessary to protect the interests of the parties involved have been satisfied. However, this does not necessitate a transaction being closed or finalised at law before control effectively passes to the acquirer. In assessing whether control has effectively been transferred, the substance of the acquisition needs to be considered.

Cost of acquisition

20. *An acquisition should be accounted for at its cost, being the amount of cash or cash equivalents paid or the fair value, at the date of exchange, of the other purchase consideration given by the acquirer in exchange for control over the net assets of the other enterprise, plus any cost directly attributable to the acquisition.*
21. When an acquisition involves more than one exchange transaction the cost of the acquisition is the aggregate cost of the individual transactions. When an acquisition is achieved in stages, the distinction between the date of acquisition and the date of the exchange transaction is important. While accounting for the acquisition commences as from the date of acquisition, it uses cost and fair value information determined as at the date of each exchange transaction.
22. Monetary assets given and liabilities incurred are measured at their fair values at the date of the exchange transaction. When settlement of the purchase consideration is deferred, the cost of the acquisition is the present value of the consideration, taking into account any premium or discount likely to be incurred in settlement, and not the nominal value of the payable.
23. In determining the cost of the acquisition, marketable securities issued by the acquirer are measured at their fair value which is their market price as at the date of the exchange transaction, provided that undue fluctuations or the narrowness of the market do not make the market price an unreliable indicator. When the market price on one particular date is not a reliable indicator, price movements for a reasonable period before and after the announcement of the terms of the acquisition need to be considered. When the market is unreliable or no quotation exists, the fair value of the securities issued by the acquirer is estimated by reference to their proportional interest in the fair value of the acquirer's enterprise or by reference to the proportional interest in the fair value of the enterprise acquired, whichever is the more clearly evident. Purchase consideration which is paid in cash to shareholders of the acquiree as an alternative to securities may also provide evidence of the total fair value given. All aspects of the acquisition, including significant factors influencing the negotiations, need to be considered, and independent valuations may be used as an aid in determining the fair value of securities issued.
24. In addition to the purchase consideration, the acquirer may incur direct costs relating to the acquisition. These include the costs of registering and issuing equity securities, and professional fees paid to accountants, legal advisers, valuers and other consultants to effect the acquisition. General administrative costs, including the costs of maintaining an acquisitions department, and other costs which cannot be directly attributed to the particular acquisition being accounted for, are not included in the cost of the acquisition but are recognised as an expense as incurred.

Recognition of identifiable assets and liabilities

25. *The identifiable assets and liabilities acquired that are recognised under paragraph 18 should be those of the acquiree that existed at the date of acquisition together with any liabilities recognised under paragraph 30. They should be recognised separately as at the date of acquisition if, and only if:*
- a. *it is probable that any associated future economic benefits will flow to, or resources embodying economic benefits will flow from, the acquirer; and*
 - b. *a reliable measure is available of their cost or fair value.*
26. Assets and liabilities that are recognised under paragraph 25 are described in this Statement as identifiable assets and liabilities. To the extent that assets and liabilities are purchased which do not satisfy these recognition criteria there is a resultant impact on the amount of goodwill or negative goodwill arising on the acquisition, because goodwill or negative goodwill is determined as the residual cost of acquisition after recognising the identifiable assets and liabilities.

27. The identifiable assets and liabilities over which the acquirer obtains control may include assets and liabilities which were not previously recognised in the financial statements of the acquiree. This may be because they did not qualify for recognition prior to the acquisition. This is the case, for example, when a tax benefit arising from tax losses of the acquiree qualifies for recognition as an identifiable asset as a result of the acquirer earning sufficient taxable income.
28. ***Subject to paragraph 30, liabilities should not be recognised at the date of acquisition if they result from the acquirer's intentions or actions. Liabilities should also not be recognised for future losses or other costs expected to be incurred as a result of the acquisition, whether they relate to the acquirer or the acquiree.***
29. The liabilities referred to in paragraph 28 are not liabilities of the acquiree at the date of acquisition. Therefore, they are not relevant in allocating the cost of acquisition. Nonetheless, this Statement contains one specific exception to this general principle. This exception applies if the acquirer has developed plans that relate to the acquiree's business and an obligation comes into existence as a direct consequence of the acquisition. Because these plans are an integral part of the acquirer's plan for the acquisition, this Statement requires an enterprise to recognise a provision for the resulting costs (see paragraph 30). For the purpose of this Statement, identifiable assets and liabilities acquired include the provisions recognised under paragraph 30. Paragraph 30 lays down strict conditions designed to ensure that the plans were an integral part of the acquisition and that within a short time - the earlier of three months after the date of acquisition and the date when the financial statements are authorised for issue - the acquirer has developed the plans in a way that requires the enterprise to recognise a restructuring provision under SSAP 28 "Provisions, contingent liabilities and contingent assets". This Statement also requires an enterprise to reverse such provisions if the plan is not implemented in the manner expected or within the time originally expected (see paragraph 72) and to disclose information on such provisions (see paragraph 81).
30. ***At the date of acquisition, the acquirer should recognise a provision that was not a liability of the acquiree at that date if, and only if, the acquirer has:***
- a. ***at, or before, the date of acquisition, developed the main features of a plan that involves terminating or reducing the activities of the acquiree and that relates to:***
 - i. ***compensating employees of the acquiree for termination of their employment;***
 - ii. ***closing facilities of the acquiree;***
 - iii. ***eliminating product lines of the acquiree; or***
 - iv. ***terminating contracts of the acquiree that have become onerous because the acquirer has communicated to the other party at, or before, the date of acquisition that the contract will be terminated;***
 - b. ***by announcing the main features of the plan at, or before, the date of acquisition, raised a valid expectation in those affected by the plan that it will implement the plan; and***
 - c. ***by the earlier of three months after the date of acquisition and the date when the annual financial statements are authorised for issue, developed those main features into a detailed formal plan identifying at least:***
 - i. ***the business or part of a business concerned;***
 - ii. ***the principal locations affected;***
 - iii. ***the location, function, and approximate number of employees who will be compensated for terminating their services;***
 - iv. ***the expenditures that will be undertaken; and***
 - v. ***when the plan will be implemented.***

Any provision recognised under this paragraph should cover only the costs of the items listed in (a)(i) to (iv) above.

Allocation of cost of acquisition

31. *The identifiable assets and liabilities recognised under paragraph 25 should be measured at their fair values as at the date of acquisition. Any goodwill or negative goodwill should be accounted for under this Statement. Any minority interest should be stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised under paragraph 25.*
32. Under this approach, the net identifiable assets over which the acquirer has obtained control are stated at their fair values, regardless of whether the acquirer has acquired all or only some of the capital of the other enterprise or has acquired the assets directly. Consequently, any minority interest is stated at the minority's proportion of the fair values of the net identifiable assets of the subsidiary.

Successive share purchases

33. An acquisition may involve more than one exchange transaction, as for example when it is achieved in stages by successive purchases on a stock exchange. When this occurs, each significant transaction is treated separately for the purpose of determining the fair values of the identifiable assets and liabilities acquired and for determining the amount of any goodwill or negative goodwill on that transaction. This results in a step-by-step comparison of the cost of the individual investments with the acquirer's percentage interest in the fair values of the identifiable assets and liabilities acquired at each significant step.
34. When an acquisition is achieved by successive purchases, the fair values of the identifiable assets and liabilities may vary at the date of each exchange transaction. If all the identifiable assets and liabilities relating to an acquisition are restated to fair values at the time of successive purchases, any adjustment relating to the previously held interest of the acquirer is a revaluation and is accounted for as such.
35. Prior to qualifying as an acquisition, a transaction may qualify as an investment in an associate and be accounted for by use of the equity method under SSAP 10 "Accounting for investments in associates". If so, the determination of fair values for the identifiable assets and liabilities acquired and the recognition of goodwill or negative goodwill occurs notionally as from the date when the equity method is applied. When the investment did not qualify previously as an associate, the fair values of the identifiable assets and liabilities are determined as at the date of each significant step and goodwill or negative goodwill is recognised from the date of acquisition.

Determining the fair values of identifiable assets and liabilities acquired

36. General guidelines for arriving at the fair values of identifiable assets and liabilities acquired are as follows:
- a. marketable securities at their current market values;
 - b. non-marketable securities at estimated values that take into consideration features such as price earnings ratios, dividend yields and expected growth rates of comparable securities of enterprises with similar characteristics;
 - c. receivables at the present values of the amounts to be received, determined at appropriate current interest rates, less allowances for uncollectability and collection costs, if necessary. However, discounting is not required for short-term receivables when the difference between the nominal amount of the receivable and the discounted amount is not material;
 - d. inventories:

- i. finished goods and merchandise at selling prices less the sum of (a) the costs of disposal and (b) a reasonable profit allowance for the selling effort of the acquirer based on profit for similar finished goods and merchandise;
 - ii. work in progress at selling prices of finished goods less the sum of (a) costs to complete, (b) costs of disposal and (c) a reasonable profit allowance for the completing and selling effort based on profit for similar finished goods; and
 - iii. raw materials at current replacement costs;
- e. land and buildings at market value;
 - f. plant and equipment at market value, normally determined by appraisal. When there is no evidence of market value because of the specialised nature of the plant and equipment or because the items are rarely sold, except as part of a continuing business, they are valued at their depreciated replacement cost;
 - g. intangible assets, as defined in SSAP 29 "Intangible assets", at fair values determined:
 - i. by reference to an active market as defined in SSAP 29; and
 - ii. if no active market exists, on a basis that reflects the amount that the enterprise would have paid for the asset in an arm's length transaction between knowledgeable willing parties, based on the best information available (see SSAP 29 for further guidance on determining the fair value of an intangible asset acquired in a business combination);
 - h. net employee benefit assets or liabilities for defined benefit plans at the present value of the defined benefit obligation less the fair value of any plan assets. However, an asset is only recognised to the extent that it is probable that it will be available to the enterprise in the form of refunds from the plan or a reduction in future contribution;
 - i. tax assets and liabilities, at the amount of the tax benefit arising from tax losses or the taxes payable in respect of the net profit or loss, assessed from the perspective of the combined entity or group resulting from the acquisition. The tax asset or liability is determined after allowing for the tax effect of restating identifiable assets and liabilities to their fair values and is not discounted. The tax assets include any deferred tax asset of the acquirer that was not recognised prior to the business combination, but which, as a consequence of the business combination, now satisfies the recognition criteria in SSAP 12 "Accounting for deferred tax".
 - j. accounts and notes payable, long-term debt, liabilities, accruals and other claims payable at the present values of amounts to be disbursed in meeting the liability determined at appropriate current interest rates. However, discounting is not required for short-term liabilities when the difference between the nominal amount of the liability and the discounted amount is not material;
 - k. onerous contracts and other identifiable liabilities of the acquiree at the present values of amounts to be disbursed in meeting the obligation determined at appropriate current interest rates; and
 - l. provisions for terminating or reducing activities of the acquiree that are recognised under paragraph 30, at an amount determined under SSAP 28 "Provisions, contingent liabilities and contingent assets".

Certain of the guidelines above assume that fair values will be determined by the use of discounting. When the guidelines do not refer to the use of discounting, discounting may or may not be used in determining the fair values of identifiable assets and liabilities.

37. ***If the fair value of an intangible asset cannot be measured by reference to an active market (as defined in SSAP 29 "Intangible assets"), the amount recognised for that intangible asset at the date of the acquisition should be limited to an amount that does not create or increase negative goodwill that arises on the acquisition (see paragraph 56).***

Goodwill arising on acquisition

Recognition and measurement

38. *Any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction should be described as goodwill and recognised as an asset.*
39. Goodwill arising on acquisition represents a payment made by the acquirer in anticipation of future economic benefits. The future economic benefits may result from synergy between the identifiable assets acquired or from assets which, individually, do not qualify for recognition in the financial statements but for which the acquirer is prepared to make a payment in the acquisition.
40. *Goodwill should be carried at cost less any accumulated amortisation and any accumulated impairment losses.*

Amortisation

41. *Goodwill should be amortised on a systematic basis over its useful life. The amortisation period should reflect the best estimate of the period during which future economic benefits are expected to flow to the enterprise. There is a rebuttable presumption that the useful life of goodwill will not exceed twenty years from initial recognition.*
42. *The amortisation method used should reflect the pattern in which the future economic benefits arising from goodwill are expected to be consumed. The straight-line method should be adopted unless there is persuasive evidence that another method is more appropriate in the circumstances.*
43. *The amortisation for each period should be recognised as an expense.*
44. With the passage of time, goodwill diminishes, reflecting the fact that its service potential is decreasing. In some cases, the value of goodwill may appear not to decrease over time. This is because the potential for economic benefits that was purchased initially is being progressively replaced by the potential for economic benefits resulting from subsequent enhancements of goodwill. In other words, the goodwill that was purchased is being replaced by internally generated goodwill. SSAP 29 "Intangible assets" prohibits the recognition of internally generated goodwill as an asset. Therefore, it is appropriate that goodwill is amortised on a systematic basis over the best estimate of its useful life.
45. Many factors need to be considered in estimating the useful life of goodwill including:
- a. the nature and foreseeable life of the acquired business;
 - b. the stability and foreseeable life of the industry to which the goodwill relates;
 - c. public information on the characteristics of goodwill in similar businesses or industries and typical lifecycles of similar businesses;
 - d. the effects of product obsolescence, changes in demand and other economic factors on the acquired business;
 - e. the service life expectancies of key individuals or groups of employees and whether the acquired business could be efficiently managed by another management team;
 - f. the level of maintenance expenditure or of funding required to obtain the expected future economic benefits from the acquired business and the company's ability and intent to reach such a level;

- g. expected actions by competitors or potential competitors; and
 - h. the period of control over the acquired business and legal, regulatory or contractual provisions affecting its useful life.
46. Because goodwill represents, among other things, future economic benefits from synergy or assets that cannot be recognised separately, it is difficult to estimate its useful life. Estimates of its useful life become less reliable as the length of the useful life increases. The presumption in this Statement is that goodwill does not normally have a useful life in excess of twenty years from initial recognition.
47. In rare cases, there may be persuasive evidence that the useful life of goodwill will be a specific period longer than twenty years. Although examples are difficult to find, this may occur when the goodwill is so clearly related to an identifiable asset or a group of identifiable assets that it can reasonably be expected to benefit the acquirer over the useful life of the identifiable asset or group of assets. In these cases, the presumption that the useful life of goodwill will not exceed twenty years is rebutted and the enterprise:
- a. amortises the goodwill over the best estimate of its useful life;
 - b. estimates the recoverable amount of the goodwill at least annually to identify any impairment loss (see paragraph 53); and
 - c. discloses the reasons why the presumption is rebutted and the factor(s) that played a significant role in determining the useful life of the goodwill (see paragraph 77(b)).
48. The useful life of goodwill is always finite. Uncertainty justifies estimating the useful life of goodwill on a prudent basis, but it does not justify estimating a useful life that is unrealistically short.
49. There will rarely, if ever, be persuasive evidence to support an amortisation method for goodwill other than the straight-line basis, especially if that other method results in a lower amount of accumulated amortisation than under the straight-line method. The amortisation method is applied consistently from period to period unless there is a change in the expected pattern of economic benefits from goodwill.
50. When accounting for an acquisition, there may be circumstances in which the goodwill on acquisition does not reflect future economic benefits that are expected to flow to the acquirer. For example, since negotiating the purchase consideration, there may have been a decline in the expected future cash flows from the net identifiable assets acquired. In this case, an enterprise tests the goodwill for impairment under SSAP 31 "Impairment of assets" and accounts for any impairment loss accordingly.
51. ***The amortisation period and the amortisation method should be reviewed at least at each financial year end. If the expected useful life of goodwill is significantly different from previous estimates, the amortisation period should be changed accordingly. If there has been a significant change in the expected pattern of economic benefits from goodwill, the method should be changed to reflect the changed pattern. Such changes should be accounted for as changes in accounting estimates under SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" by adjusting the amortisation charge for the current and future periods.***

Recoverability of the carrying amount - impairment losses

52. To determine whether goodwill is impaired, an enterprise applies SSAP 31 "Impairment of assets". SSAP 31 explains how an enterprise reviews the carrying amount of its assets, how it determines the recoverable amount of an asset and when it recognises or reverses an impairment loss.

53. *In addition to following the requirements included in SSAP 31 "Impairment of assets", an enterprise should, at least at each financial year end, estimate in accordance with SSAP 31, the recoverable amount of goodwill that is amortised over a period exceeding twenty years from initial recognition, even if there is no indication that it is impaired.*
54. It is sometimes difficult to identify whether goodwill is impaired, particularly if it has a long useful life. As a consequence, this Statement requires, as a minimum, an annual calculation of the recoverable amount of goodwill if its useful life exceeds twenty years from initial recognition.
55. The requirement for an annual impairment test of goodwill applies whenever the current total estimated useful life of the goodwill exceeds twenty years from its initial recognition. Therefore, if the useful life of goodwill was estimated to be less than twenty years at initial recognition, but the estimated useful life is subsequently extended to exceed twenty years from when the goodwill was initially recognised, an enterprise performs the impairment test required under paragraph 53 and gives the disclosure required under paragraph 77(b).

Negative goodwill arising on acquisition

Recognition and measurement

56. *Any excess, as at the date of the exchange transaction, of the acquirer's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, should be recognised as negative goodwill.*
57. The existence of negative goodwill may indicate that identifiable assets have been overstated and identifiable liabilities have been omitted or understated. It is important to ensure that this is not the case before negative goodwill is recognised.
58. *To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquirer's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition (see paragraph 25), that portion of negative goodwill should be recognised as income in the income statement when the future losses and expenses are recognised. If these identifiable future losses and expenses are not recognised in the expected period, negative goodwill should be treated under paragraph 59(a) and (b).*
59. *To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill should be recognised as income in the income statement as follows:*
- a. *the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets should be recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets; and*
 - b. *the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets should be recognised as income immediately.*
60. To the extent that negative goodwill does not relate to expectations of future losses and expenses that have been identified in the acquirer's plan for the acquisition and can be measured reliably, negative goodwill is a gain which is recognised as income when the future economic benefits embodied in the identifiable depreciable/amortisable assets acquired are consumed. In the case of monetary assets, the gain is recognised as income immediately.

Presentation

61. *Negative goodwill should be presented as a deduction from the assets of the reporting enterprise, in the same balance sheet classification as goodwill.*

Adjustments to purchase consideration contingent on future events

62. *When the acquisition agreement provides for an adjustment to the purchase consideration contingent on one or more future events, the amount of the adjustment should be included in the cost of the acquisition as at the date of acquisition if the adjustment is probable and the amount can be measured reliably.*
63. Acquisition agreements may allow for adjustments to be made to the purchase consideration in the light of one or more future events. The adjustments may be contingent on a specified level of earnings being maintained or achieved in future periods or on the market price of the securities issued as part of the purchase consideration being maintained.
64. When initially accounting for an acquisition, it is usually possible to estimate the amount of any adjustment to the purchase consideration, even though some uncertainty exists, without impairing the reliability of the information. If the future events do not occur, or the estimate needs to be revised, the cost of the acquisition is adjusted with a consequential effect on goodwill, or negative goodwill, as the case may be.

Subsequent changes in cost of acquisition

65. *The cost of the acquisition should be adjusted when a contingency affecting the amount of the purchase consideration is resolved subsequent to the date of the acquisition, so that payment of the amount is probable and a reliable estimate of the amount can be made.*
66. The terms of an acquisition may provide for an adjustment of the purchase consideration if the results from the acquiree's operations exceed or fall short of an agreed level after acquisition. When the adjustment subsequently becomes probable and a reliable estimate can be made of the amount, the acquirer treats the additional consideration as an adjustment to the cost of acquisition, with a consequential effect on goodwill, or negative goodwill, as the case may be.
67. In some circumstances, the acquirer may be required to make subsequent payment to the seller as compensation for a reduction in the value of the purchase consideration. This is the case when the acquirer has guaranteed the market price of securities or debt issued as consideration and has to make a further issue of securities or debt for the purpose of restoring the originally determined cost of acquisition. In such cases, there is no increase in the cost of acquisition and, consequently, no adjustment to goodwill or negative goodwill. Instead, the increase in securities or debt issued represents a reduction in the premium or an increase in the discount on the initial issue.

Subsequent identification or changes in value of identifiable assets and liabilities

68. *Identifiable assets and liabilities, which are acquired but which do not satisfy the criteria in paragraph 25 for separate recognition when the acquisition is initially accounted for, should be recognised subsequently as and when they satisfy the criteria. The carrying amounts of identifiable assets and liabilities acquired should be adjusted when, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amounts assigned to those identifiable assets and liabilities when the acquisition was initially accounted for. The amount assigned to goodwill or negative goodwill should also be adjusted, when necessary, to the extent that:*

- a. *the adjustment does not increase the carrying amount of goodwill above its recoverable amount, as defined in SSAP 31 "Impairment of assets"; and*
- b. *such adjustment is made by the end of the first annual accounting period commencing after acquisition (except for the recognition of an identifiable liability under paragraph 30, for which the time-frame in paragraph 30(c) applied),*

otherwise the adjustments to the identifiable assets and liabilities should be recognised as income or expense.

69. Identifiable assets and liabilities of an acquiree may not have been recognised at the time of acquisition because they did not meet the recognition criteria for identifiable assets and liabilities or the acquirer was unaware of their existence. Similarly, the fair values assigned at the date of acquisition to the identifiable assets and liabilities acquired may need to be adjusted as additional evidence becomes available to assist with the estimation of the value of the identifiable asset or liability at the date of acquisition. When the identifiable assets or liabilities are recognised or the carrying amounts are adjusted after the end of the first annual accounting period (excluding interim periods) commencing after acquisition, income or expense is recognised rather than an adjustment to goodwill or negative goodwill. This time limit, while arbitrary in its length, prevents goodwill and negative goodwill from being reassessed and adjusted indefinitely.
70. Under paragraph 68, the carrying amount of goodwill (negative goodwill) is adjusted if, for example, there is an impairment loss before the end of the first annual accounting period commencing after acquisition for an identifiable asset acquired and the impairment loss does not relate to specific events or changes in circumstances occurring after the date of acquisition.
71. When, subsequent to acquisition but prior to the end of the first annual accounting period commencing after acquisition, the acquirer becomes aware of the existence of a liability which had existed at the date of acquisition or of an impairment loss that does not relate to specific events or changes in circumstances occurring after the date of acquisition, goodwill is not increased above its recoverable amount determined under SSAP 31.
72. *If provisions for terminating or reducing activities of the acquiree were recognised under paragraph 30, these provisions should be reversed if, and only if:*
- a. *the outflow of economic benefits is no longer probable; or*
 - b. *the detailed formal plan is not implemented:*
 - i. *in the manner set out in the detailed formal plan; or*
 - ii. *within the time established in the detailed formal plan.*

Such a reversal should be reflected as an adjustment to goodwill or negative goodwill (and minority interests, if appropriate), so that no income or expense is recognised in respect of it. The adjusted amount of goodwill should be amortised prospectively over its remaining useful life. The adjusted amount of negative goodwill should be dealt with under paragraph 59(a) and (b).

73. No subsequent adjustment is normally necessary in respect of provisions recognised under paragraph 30, as the detailed formal plan is required to identify the expenditures that will be undertaken. If the expenditures have not occurred in the expected period, or are no longer expected to occur, it is necessary to adjust the provision for terminating or reducing activities of the acquiree, with a corresponding adjustment to the amount of goodwill or negative goodwill (and minority interests, if appropriate). If subsequently, there is any obligation that is required to be recognised under SSAP 28 "Provisions, contingent liabilities and contingent assets", the enterprise recognises a corresponding expense.

Taxes on income

74. In some countries, the accounting treatment for an acquisition may differ from that applied under their respective income tax laws. Any resulting deferred tax liabilities and deferred tax assets are recognised under SSAP 12 "Accounting for deferred tax".
75. The potential benefit of income tax loss carryforwards, or other deferred tax assets, of an acquired enterprise, which were not recognised as an identifiable asset by the acquirer at the date of acquisition, may subsequently be realised. When this occurs, the acquirer recognises the benefit as income under SSAP 12 "Accounting for deferred tax". In addition, the acquirer:
- a. adjusts the gross carrying amount of the goodwill and the related accumulated amortisation to the amounts that would have been recorded if the deferred tax asset had been recognised as an identifiable asset at the date of the acquisition; and
 - b. recognises the reduction in the net carrying amount of the goodwill as an expense.

However, this procedure does not create negative goodwill, nor does it increase the carrying amount of negative goodwill.

Disclosure

76. *The following disclosures should be made in the financial statements for the period during which the acquisition has taken place:*
- a. *the names and descriptions of the acquirees;*
 - b. *the effective date of the acquisition for accounting purposes;*
 - c. *the percentage of voting shares acquired;*
 - d. *the cost of acquisition and a description of the purchase consideration paid or contingently payable; and*
 - e. *any operations resulting from the acquisition which the enterprise has decided to dispose of.*
77. *For goodwill, the financial statements should disclose:*
- a. *the amortisation period(s) adopted;*
 - b. *if goodwill is amortised over more than twenty years, the reasons why the presumption that the useful life of goodwill will not exceed twenty years from initial recognition is rebutted. In giving these reasons, the enterprise should describe the factor(s) that played a significant role in determining the useful life of the goodwill;*
 - c. *if goodwill is not amortised on the straight-line basis, the basis used and reason why that basis is more appropriate than the straight-line basis;*
 - d. *the line item(s) of the income statement in which the amortisation of goodwill is included; and*
 - e. *a reconciliation of the carrying amount of goodwill at the beginning and end of the period showing:*
 - i. *the gross amount and the accumulated amortisation (aggregated with accumulated impairment losses), at the beginning of the period;*
 - ii. *any additional goodwill recognised during the period;*

- iii. *any adjustments resulting from subsequent identification or changes in value of identifiable assets and liabilities;*
- iv. *any goodwill derecognised on the disposal of all or part of the business to which it relates during the period;*
- v. *amortisation recognised during the period;*
- vi. *impairment losses recognised during the period under SSAP 31 "Impairment of assets" (if any);*
- vii. *impairment losses reversed during the period under SSAP 31 (if any);*
- viii. *other changes in the carrying amount during the period (if any); and*
- ix. *the gross amount and the accumulated amortisation (aggregated with accumulated impairment losses), at the end of the period.*

Comparative information is not required.

78. When an enterprise describes the factor(s) that played a significant role in determining the useful life of goodwill that is amortised over more than twenty years, the enterprise considers the list of factors in paragraph 45.
79. An enterprise discloses information on impaired goodwill under SSAP 31 in addition to the information required by paragraph 77(e)(vi) and (vii).
80. *For negative goodwill, the financial statements should disclose:*
- a. *to the extent that negative goodwill is treated under paragraph 58, a description, the amount and the timing of the expected future losses and expenses;*
 - b. *the period(s) over which negative goodwill is recognised as income;*
 - c. *the line item(s) of the income statement in which negative goodwill is recognised as income; and*
 - d. *a reconciliation of the carrying amount of negative goodwill at the beginning and end of the period showing:*
 - i. *the gross amount of negative goodwill and the accumulated amount of negative goodwill already recognised as income, at the beginning of the period;*
 - ii. *any additional negative goodwill recognised during the period;*
 - iii. *any adjustments resulting from subsequent identification or changes in value of identifiable assets and liabilities;*
 - iv. *any negative goodwill derecognised on the disposal of all or part of the business to which it relates during the period;*
 - v. *negative goodwill recognised as income during the period, showing separately the portion of negative goodwill recognised as income under paragraph 58 (if any);*
 - vi. *other changes in the carrying amount during the period (if any); and*
 - vii. *the gross amount of negative goodwill and the accumulated amount of negative goodwill already recognised as income, at the end of the period.*

Comparative information is not required.

81. *The disclosure requirements of SSAP 28 "Provisions, contingent liabilities and contingent assets" apply to provisions recognised under paragraph 30 for terminating or reducing the activities of an acquiree. These provisions should be treated as a separate class of provisions for the purpose of disclosure under SSAP 28. In addition, the aggregate carrying amount of these provisions should be disclosed for each individual acquisition.*
82. *If the fair values of the identifiable assets and liabilities or the purchase consideration can only be determined on a provisional basis at the end of the period in which the acquisition took place, this should be stated and reasons given. When there are subsequent adjustments to such provisional fair values, those adjustments should be disclosed and explained in the financial statements of the period concerned.*
83. General disclosures required to be made in consolidated financial statements are contained in SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries".
84. *For acquisitions effected after the balance sheet date, the information required by paragraphs 76 to 82 should be disclosed. If it is impracticable to disclose any of this information, this fact should be disclosed.*
85. Acquisitions which have been effected after the balance sheet date and before the date on which the financial statements are authorised for issue are disclosed if 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 9 (revised) "Events after the balance sheet date").
86. In certain circumstances, the effect of the acquisition may be to allow the financial statements of the enterprise concerned to be prepared in accordance with the going concern assumption. This might not have been possible for one or both of the combining enterprises. This may occur, for example, when an enterprise with cash flow difficulties combines with an enterprise having access to cash that can be used in the enterprise with a need for cash. If this is the case, disclosure of this information in the financial statements of the enterprise having the cash flow difficulties is relevant.

Specific disclosures for Hong Kong incorporated companies

87. *When a Hong Kong incorporated company acquires an enterprise which would be a subsidiary as defined in paragraph 11 but is not accounted for as a subsidiary as a result of paragraph 12, it should disclose in the notes details of the effect on the group accounts had paragraph 12 not applied.*

Transitional provisions

88. *At the date when this Statement becomes effective (or at the date of adoption, if earlier), it should be applied as set out in the following tables. In all cases other than those detailed in these tables, this Statement should be applied retrospectively, unless it is impracticable to do so.*

Transitional provisions -Restatement of goodwill and negative goodwill	
Circumstances	Requirements
<i>1. An acquisition arose in annual financial statements covering periods before this Statement is effective (or before the date of adoption of this Statement if earlier).</i>	
<i>(a) Goodwill (negative goodwill) was written off against reserves.</i>	<p><i>Restatement of the goodwill (negative goodwill) is encouraged, but not required. If the goodwill (negative goodwill) is restated:</i></p> <ul style="list-style-type: none"> <i>(i) restate goodwill and negative goodwill for all acquisitions before this Statement becomes effective (or before the date of adoption of this Statement if earlier);</i> <i>(ii) determine the amount assigned to the goodwill (negative goodwill) at the date of acquisition under paragraph 38(56) of this Statement and recognise the goodwill (negative goodwill) accordingly;</i> <i>(iii) determine the accumulated amortisation of the goodwill (the accumulated amount of negative goodwill recognised as income) since the date of acquisition under paragraphs 41-51 (58-60) of this Statement and recognise it accordingly; and</i>
	<i>(iv) estimate any impairment loss that arose on goodwill since the date of acquisition, following the requirements of SSAP 31 "Impairment of assets" and paragraph 53 of this Statement, and recognise it as part of the restatement. Where the reporting enterprise has not previously followed a policy of recognising impairment losses in respect of goodwill written off against reserves, implementation of this Statement is treated as a change in accounting policy in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies".</i>

	<p><i>If goodwill is not restated, estimate any impairment loss that has arisen on goodwill since the date of acquisition, following the requirements of SSAP 31 "Impairment of assets". Where the reporting enterprise has not previously followed a policy of recognising impairment losses in respect of goodwill written off against reserves, implementation of this Statement is treated as a change in accounting policy in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies."</i></p>
<p><i>(b) Goodwill (negative goodwill) was recognised initially as an asset (deferred income) but not at the amount that would have been assigned under paragraph 38(56) of this Statement.</i></p>	<p><i>Restatement of the goodwill (negative goodwill) is encouraged, but not required.</i></p> <p><i>If the goodwill (negative goodwill) is restated, apply the requirements under circumstance 1(a) above.</i></p> <p><i>If the goodwill (negative goodwill) is not restated, the amount assigned to the goodwill (negative goodwill) at the date of acquisition is deemed to have been properly determined. For the amortisation of goodwill (recognition of negative goodwill as income), see circumstances 2 or 3 below.</i></p>

Transitional provisions -Amortisation of goodwill (recognition of negative goodwill as income)	
Circumstances	Requirements
<p><i>2. Goodwill was recognised as an asset but was not previously amortised or the amortisation charge was deemed to be nil.</i></p> <p><i>Negative goodwill was recognised initially as a separate item in the balance sheet but was not subsequently recognised as income or the amount of negative goodwill to be recognised as income was deemed to be nil.</i></p>	<p><i>Restate the carrying amount of the goodwill (negative goodwill) as if the amortisation of goodwill (amount of negative goodwill recognised as income) had always been determined under this Statement (see paragraphs 41-51(58-60)).</i></p>

<p>3. <i>Goodwill (negative goodwill) was previously amortised (recognised as income).</i></p>	<p><i>Do not restate the carrying amount of the goodwill (negative goodwill) for any difference between accumulated amortisation (accumulated negative goodwill recognised as income) in prior years and that calculated under this Statement and:</i></p> <p><i>(i) amortise any carrying amount of the goodwill over its remaining useful life determined under this Statement (see paragraphs 41-51); and</i></p> <p><i>(ii) recognise any carrying amount of the negative goodwill as income over the remaining weighted average useful life of the identifiable depreciable/amortisable non-monetary assets acquired (see paragraph 59(a))</i></p> <p><i>(i.e. any change is treated in the same way as a change in accounting estimate under SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting polices").</i></p>
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<i>Transitional Provision: Reverse acquisitions</i>	
<i>Circumstance</i>	<i>Requirement</i>
<p>4. <i>A reverse acquisition arose in annual financial statements covering periods before this Statement became effective (or before the date of adoption of this Statement if earlier) that was not accounted for as required under paragraph 15 of this Statement.</i></p>	<p><i>Retrospective application of paragraph 15 of this Statement to a reverse acquisition is allowed but not required.</i></p>

89. *The effect of adopting this Statement on its effective date (or earlier) should be recognised under SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies" as an adjustment to the opening balance of retained earnings of the earliest period presented.*
90. *In the first annual financial statements issued under this Statement, an enterprise should disclose the transitional provisions adopted where transitional provisions under this Statement permit a choice.*

Effective date

91. *The accounting practices set out in this Statement should be regarded as standard in respect of financial statements relating to periods beginning on or after 1 January 2001. Earlier adoption is encouraged but not required. If an enterprise applies this Statement for financial statements covering periods beginning before 1 January 2001, the enterprise should:*
- a. *disclose that fact; and*
 - b. *adopt SSAP 9 (revised) "Events after the balance sheet date", SSAP 28 "Provisions, contingent liabilities and contingent assets", SSAP 29 "Intangible assets", SSAP 31 "Impairment of assets", and SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries" at the same time.*

Notes on legal requirements in Hong Kong

92. The legal requirements in Hong Kong with regard to the form and content of group accounts and other matters relating to subsidiaries of a company are dealt with in SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries".
93. Under section 2(4) of the Companies Ordinance, a company shall be deemed to be a subsidiary of another company, if:
- a. that other company:
 - i. controls the composition of the board of directors of the first mentioned company; or
 - ii. controls more than half of the voting power of the first mentioned company; or
 - iii. holds more than half of the issued share capital of the first mentioned company (excluding any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital); or
 - b. the first mentioned company is a subsidiary of any company which is that other company's subsidiary.
94. For the purposes of defining a subsidiary under section 2(4) of the Companies Ordinance, section 2(5) of the Companies Ordinance states that the composition of a company's board of directors shall be deemed to be controlled by another company if that other company by the exercise of some power exercisable by it, without the consent or concurrence of any other person, can appoint or remove all or a majority of the directors, and, for the purposes of this provision, that other company shall be deemed to have power to make such an appointment if:
- a. a person cannot be appointed as a director without the exercise in his favour by that other company of such a power; or
 - b. a person's appointment as a director follows necessarily from his being a director or other officer of that other company.

95. The Tenth Schedule to the Companies Ordinance contains the following disclosure requirements for goodwill:

a. Balance sheet

Paragraph 9(1)(b) of the Schedule requires the disclosure of the unamortised balance of goodwill either as a separate item or aggregated with any unamortised balances on patents and trademarks. This requirement applies whether the goodwill is carried as a separate balance in the books or can only be ascertained from contracts or documents.

b. Profit and loss account

The amortisation treatment involves the allocation of cost of purchased goodwill over its useful life and can be regarded as depreciation within the meaning of the Tenth Schedule. Therefore the disclosure requirements of paragraph 13(1)(a) of that Schedule apply and the amount charged to revenue for amortisation of goodwill should be disclosed.

Compliance with International Accounting Standards

96. Except for the following, compliance with this Statement ensures compliance, in all material respects, with International Accounting Standard (IAS) 22 "Business combinations":

- a. Due to the legal constraints as mentioned in paragraph 5 of this Statement, paragraph 12 of this Statement recognises that Hong Kong incorporated companies should use the definition of a subsidiary as set out in section 2(4) of the Companies Ordinance where it conflicts with the definition of a subsidiary as stated in paragraph 11 of this Statement.
- b. IAS 22 covers both an acquisition of one enterprise by another and also the rare situation of a uniting of interests when an acquirer cannot be identified. This Statement takes the view that an acquirer should always be identifiable in every business combination and thus it does not cover the accounting for a uniting of interests.
- c. IAS 22 has a benchmark treatment of allocating the cost of an acquisition whereby the resulting minority interest is stated at the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets and liabilities of the subsidiary. IAS 22 also has an allowed alternative treatment of allocating the cost of an acquisition whereby the resulting minority interest is stated at the minority's proportion of the fair values of the identifiable assets and liabilities of the subsidiary. The requirements of this Statement in respect of the allocation of cost of an acquisition accord very closely with the allowed alternative treatment under IAS 22.

Appendix

Changes from International Accounting Standard 22 (Revised 1998) "Business combinations"

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

Changes	Reasons for the changes
<p>(i) <u>Uniting of interests</u></p> <p>All references to the accounting for a uniting of interests in the IAS are removed (see IAS 22 paragraph 8 for definition, paragraphs 13 to 16 for descriptions of the nature, paragraphs 77 to 83 for accounting treatments and accounting treatments and paragraphs 86 and 94 for disclosure requirements). The definition of a business combination and the wording in certain paragraphs are modified to exclude the effect of a uniting of interests.</p>	<p>The only circumstance in which the use of acquisition accounting is inappropriate, other than group reconstructions which meet the conditions for merger accounting under SSAP 27, would be in the case of a business combination where an acquirer cannot be identified. The Hong Kong Society of Accountants considers that, in practice, it is possible in all but the rarest circumstances to identify an acquirer.</p>
<p>(ii) <u>Provisions for Hong Kong incorporated companies</u></p> <p>Additional paragraphs are inserted:</p> <p>(a) to give the background on why Hong Kong incorporated companies should use the definition as set out in section 2(4) of the Companies Ordinance (see paragraphs 4 to 6);</p> <p>(b) to include a specific provision for Hong Kong incorporated companies in applying this Statement (see paragraph 12); and</p> <p>(c) to require specific disclosures for Hong Kong incorporated companies (see paragraph 87).</p>	<p>This Statement recognises that a Hong Kong incorporated company may not consolidate a company that does not meet the definition of a subsidiary in the Companies Ordinance due to constraints imposed by the Companies Ordinance.</p>
<p>(iii) <u>SSAP 30 paragraph 8 vs IAS 22 paragraph 5</u></p> <p>The examples given in the IAS on the usual form of a legal merger are replaced by a statement "In Hong Kong, a legal merger normally takes the form of a scheme of arrangement". A cross-reference to SSAP 27 "Accounting for group reconstructions" is also added.</p>	<p>To conform with Hong Kong law.</p>

<p>(iv) <u>IAS 22 paragraphs 32 and 33</u></p> <p>The benchmark treatment of allocating the cost of an acquisition, whereby the resulting minority interest is stated at the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets and liabilities of the subsidiary, is removed.</p>	<p>The Statement takes the view that the alternative treatment under the IAS is the preferred approach.</p>
<p>(v) <u>SSAP 30 paragraph 88(1)(a)</u></p> <p><i>A transitional arrangement for the accounting for any impairment loss that arose on goodwill written off against reserves since the date of acquisition is added.</i></p>	<p><i>To avoid distortion of financial results</i></p>
<p>(vi) <u>SSAP 30 paragraph 88(4)</u></p> <p><i>This Statement does not require retrospective application of the provision relating to reverse acquisitions as set out in paragraph 15 of this Statement.</i></p>	<p><i>Retrospective application of that provision will generally be impracticable.</i></p>