

Financial Reporting Update

On Consolidated Financial Statements and Joint Arrangements

11 July 2012



LAM Chi Yuen Nelson 林智遠
MBA MSc BBA ACA ACS CFA CPA(Aust) CPA(US)
CTA FCCA FCPA FHKIoD FTIHK MHKSI MSCA

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IFRS and HKFRS Issued in 2011

On 12 May 2011

- The IASB issued 4 new IFRS
- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*



On 16 June 2011

- The IASB amended 2 other IFRS
- IAS 1 *Presentation of Financial Statements*
- IAS 19 *Employee Benefits*

On 24 June and 14 July 2011

- The HKICPA issued the same in HKFRS and HKAS

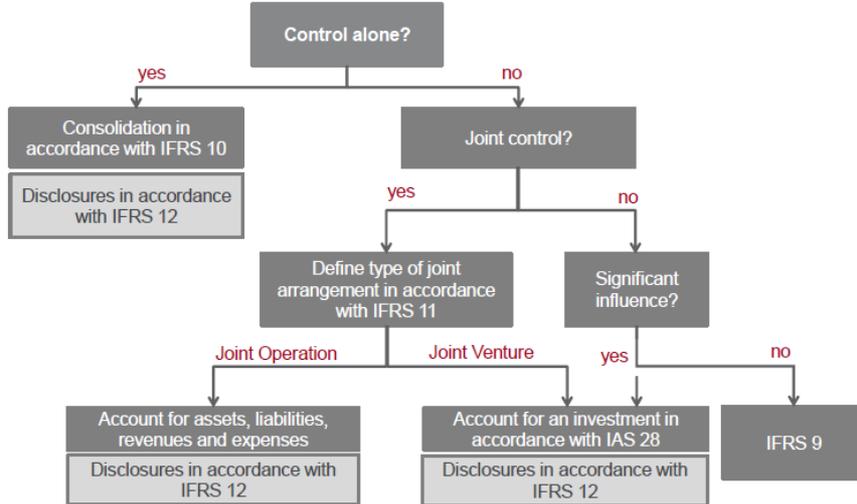


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Briefing on HKFRS 10, 11 and 12

Interaction between IFRS/HKFRS 10, 11 and 12 and IAS/HKAS 28



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The graph is adapted from the IASB

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Today's Agenda

Full version of slides can be found in
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HKFRS 10 *Consolidated Financial Statements*

HKFRS 11 *Joint Arrangements*

HKFRS 12 *Disclosure of Interests in Other Entities*

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Consolidated Financial Statements

(HKFRS 10)



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HKFRS 10 Consol. Financial Statements

Case



Quarterly Report 2012 (for 3 months ended 31.3.2012)

- Notes To The Condensed Consolidated Financial Statements (Unaudited)
 - Under HKFRS 10, there is a single approach for determining control for the purpose of consolidation of subsidiaries by an entity based on
 - the concept of power, variability of returns and the ability to use power to affect the amount of returns.
 - This replaces the previous approach which emphasised
 - legal control under HKAS 27 (Revised) (for companies) or
 - exposure to risks and rewards under HK(SIC)-INT 12 (for special purpose entities).
 - The adoption of HKFRS 10 does not have any financial impact to the Group as all subsidiaries satisfy the requirements for control under HKFRS 10.

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HKFRS 10 Consol. Financial Statements

Case

 Cheung Kong (Holdings) Limited

- 長實換核數師 擬準備重組
(《爽報》2012.04.11)
 - 長實(001)昨發通函，建議委任羅兵咸為公司新核數師，取代已沿用了逾40年的德勤，而羅兵咸則一直是同系和黃(013)的核數師。
 - 有資深執業會計師估計(?)，此舉措不排除是為整個長和系重組作準備。
 - 資深執業會計師林智遠表示，由於新會計準則《香港財務報告準則10號》將於明年1月1日生效，而該新準則主要是要同系上市公司之間的關係釐清，而長實與和黃一直是聯營公司關係，所以是次長實換了與和黃同一核數師，不排除就是為該新準則生效前作重組而準備。
 - 不過，長實副董事總經理葉德銓昨傍晚於電話會議中表示，目前並無計劃將長實與和黃進行重組，更換核數師並非為了易於重組，也不擔心兩公司起用同一核數師會影響兩者的透明度及獨立性。

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HKFRS 10 Consol. Financial Statements

- The contents of HKFRS 10:
 - a. requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements;
 - b. defines the principle of control, and establishes control as the basis for consolidation;
 - c. sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and
 - d. sets out the accounting requirements for the preparation of consolidated financial statements (HKFRS 10.2).



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HKFRS 10 Consol. Financial Statements

- The IASB explains that
 - The application of IAS 27 and SIC-12 revealed inconsistent application in a number of areas:
 - Applying the definition of control: the perceived conflict of emphasis between
 - IAS 27 (power to govern financial and operating policies) and
 - SIC-12 (risks and rewards)led to inconsistent application of the definition of control for different types of entities.
 - Control without a majority of voting rights: because IAS 27 does not provide explicit guidance in this area, similar relationships between entities were being accounted for differently.
 - Agency relationships: the lack of guidance for these relationships meant that similar transactions (e.g. those involving funds or investment conduits) were being accounted for differently.
 - Instead, IFRS 10 contains a single consolidation model that identifies control as the basis for consolidation for all types of entities
 - Also providing additional application guidance, will increase consistent application in these areas.

HKFRS 10 Consol. Financial Statements

- While HKFRS 10 become effective,
 - HKAS 27 becomes “separate financial statements”
- Indicator still refers to **“control”** but the definition and assessment of control will not be the same



Control

- An investor, regardless of the nature of its involvement with an entity (the investee),
 - shall determine whether it is a parent by assessing whether it **controls** the investee. (HKFRS 10.5)
- An investor controls an investee when
 - it is exposed, or has rights, to variable returns from its involvement with the investee and
 - has the ability to affect those returns through its power over the investee. (HKFRS 10.6)



Control

- Thus, an investor controls an investee if and only if the investor has all the following:
 - a. power over the investee;
 - b. exposure, or rights, to variable returns from its involvement with the investee; and
 - c. the ability to use its power over the investee to affect the amount of the investor's returns (HKFRS 10.7)

Power is defined as “existing rights that give the current ability to direct the relevant activities”

relevant activities are “activities of the investee that significantly affect the investee's returns”

Rights include

- voting rights, potential voting rights, proportionate voting rights, substantive rights, removal rights, decision-making rights, protective rights, contractual rights



Control

- An investor shall consider all facts and circumstances when assessing whether it controls an investee.
 - The investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed as above. (HKFRS 10.8)

Power

Returns

Link between
Power & Returns



Control

- Consideration of the following factors may assist in making the determination whether an investor controls an investee:
 - a. the purpose and design of the investee;
 - b. what the relevant activities are and how decisions about those activities are made;
 - c. whether the rights of the investor give it the current ability to direct the relevant activities;
 - d. whether the investor is exposed, or has rights, to variable returns from its involvement with the investee; and
 - e. whether the investor has the ability to use its power over the investee to affect the amount of the investor's returns. (HKFRS 10.B3)

Power

Returns

Link between
Power & Returns



Control

- Two or more investors collectively control an investee when they must act together to direct the relevant activities.
 - In such cases, because no investor can direct the activities without the co-operation of the others, no investor individually controls the investee.
 - Each investor would account for its interest in the investee in accordance with the relevant HKFRSs, such as
 - HKFRS 11 *Joint Arrangements*,
 - HKAS 28 *Investments in Associates and Joint Ventures* or
 - HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement*) (HKFRS 10.8)

Power

Returns

Link between Power & Returns



Control

- An investor has power over an investee when the investor has existing rights that give it the current ability to direct the relevant activities,
 - i.e. the activities that significantly affect the investee's returns (HKFRS 10.10)
- Power arises from rights.
 - Sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings.
 - In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements (HKFRS 10.11)

Power

Existing Rights

Current Ability

relevant activities

Control

- An investor with the current ability to direct the relevant activities has power even if its rights to direct have yet to be exercised.
 - Evidence that the investor has been directing relevant activities can help determine whether the investor has power, but such evidence is not, in itself, conclusive in determining whether the investor has power over an investee (HKFRS 10.12)
- If two or more investors each have existing rights that give them the unilateral ability to direct different relevant activities,
 - the investor that has the current ability to direct the activities that most significantly affect the returns of the investee has power over the investee (HKFRS 10.13)

Power

Existing Rights

Current Ability

Control

- The determination about whether an investor has power depends on
 - the relevant activities,
 - the way decisions about the relevant activities are made and
 - the rights the investor and other parties have in relation to the investee. (HKFRS 10.B10)

Power

Existing Rights

Current Ability

relevant activities

Control

Example

- Examples of activities that, depending on the circumstances, can be relevant activities include, but are not limited to:
 - a. selling and purchasing of goods or services;
 - b. managing financial assets during their life (including upon default);
 - c. selecting, acquiring or disposing of assets;
 - d. researching and developing new products or processes; and
 - e. determining a funding structure or obtaining funding. (HKFRS 10.B11)

Power

relevant activities

Control

Example

- Examples of decisions about relevant activities include but are not limited to:
 - a. establishing operating and capital decisions of the investee, including budgets; and
 - b. appointing and remunerating an investee's key management personnel or service providers and terminating their services or employment. (HKFRS 10.B12)

Power

relevant activities

Control

- Power arises from rights.
- The rights that may give an investor power can differ between investees. (HKFRS 10.B14)

Power

Existing Rights



Control

Example

- Examples of rights that, either individually or in combination, can give an investor power include but are not limited to:
 - a. rights in the form of voting rights (or potential voting rights) of an investee;
 - b. rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities;
 - c. rights to appoint or remove another entity that directs the relevant activities;
 - d. rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor; and
 - e. other rights (such as decision-making rights specified in a management contract) that give the holder the ability to direct the relevant activities. (HKFRS 10.B15)

Power

Existing Rights



Control

Example

- Examples of evidence that the investor's rights are sufficient to give it power over the investee:
 - a. Appoint or approve the investee's key management personnel (KMP) who have the ability to direct the relevant activities.
 - b. Direct the investee to enter into, or can veto any changes to, significant transactions for the benefit of the investor.
 - c. Dominate either the nominations process for electing members of the investee's governing body or the obtaining of proxies from other holders of voting rights.
 - d. KMP are related parties of the investor (e.g. the same CEO of the investee and of the investor).
 - e. The majority of the members of the investee's governing body are related parties of the investor. (HKFRS 10.B18)

Power

Existing Rights

Greater weight is given to the list of evidence when considering power

Control

Example

- The following indicator suggests that the investor has more than a passive interest in the investee and, in combination with other rights, may indicate power:
 - a. The investee's key management personnel who have the ability to direct the relevant activities are current or previous employees of the investor.
 - b. The investee's operations are dependent on the investor, such as in the following situations:
 - i. The investee depends on the investor to fund a significant portion of its operations.
 - ii. The investor guarantees a significant portion of the investee's obligations.
 - iii. The investee depends on the investor for critical services, technology, supplies or raw materials.

Power

Existing Rights



Control

Example

- iv. The investor controls assets such as licences or trademarks that are critical to the investee's operations.
- v. The investee depends on the investor for key management personnel, such as when the investor's personnel have specialised knowledge of the investee's operations.
- c. A significant portion of the investee's activities either involve or are conducted on behalf of the investor.
- d. The investor's exposure, or rights, to returns from its involvement with the investee is disproportionately greater than its voting or other similar rights.
 - e.g. there may be a situation in which an investor is entitled, or exposed, to more than half of the returns of the investee but holds less than half of the voting rights of the investee. (HKFRS 10.B19)

Power

Existing Rights



Control

- An investor, in assessing whether it has power, considers only substantive rights relating to an investee (held by the investor and others).
- For a right to be substantive,
 - the holder must have the practical ability to exercise that right. (HKFRS 10.B22)

Power

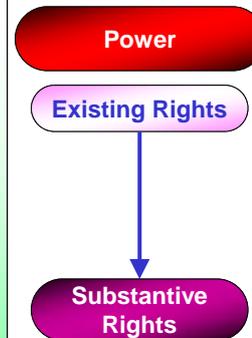
Existing Rights

Substantive Rights

Control

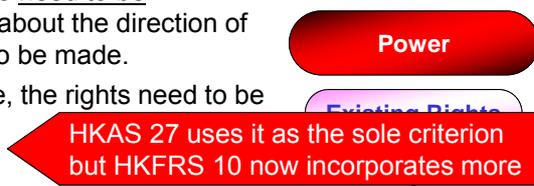
Example

- Determining whether rights are substantive requires judgement, taking into account all facts and circumstances. Factors to consider in making that determination include but are not limited to:
 - a. Whether there are any barriers (economic or otherwise) that prevent the holder (or holders) from exercising the rights;
 - b. When the exercise of rights requires the agreement of more than one party, or when the rights are held by more than one party, whether a mechanism is in place that provides those parties with the practical ability to exercise their rights collectively if they choose to do so;
 - c. Whether the party or parties that hold the rights would benefit from the exercise of those rights, for example, terms of conditions of potential voting rights. (HKFRS 10.B24)



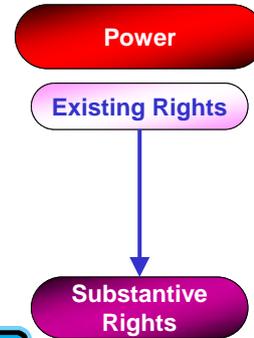
Control

- To be substantive, rights also need to be exercisable when decisions about the direction of the relevant activities need to be made.
 - Usually, to be substantive, the rights need to be currently exercisable.
- However, sometimes rights can be substantive,
 - even though the rights are not currently exercisable. (HKFRS 10.B24)



Control

- Substantive rights exercisable by other parties can prevent an investor from controlling the investee to which those rights relate.
- Such substantive rights do not require the holders to have the ability to initiate decisions.
- As long as the rights are not merely protective, substantive rights held by other parties may prevent the investor from controlling the investee
 - even if the rights give the holders only the current ability to approve or block decisions that relate to the relevant activities. (HKFRS 10.B25)

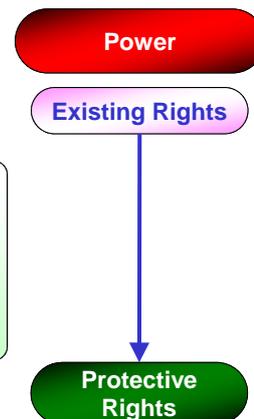


Control

- In evaluating whether rights give an investor power over an investee,
 - the investor shall assess whether its rights, and rights held by others, are protective rights. (HKFRS 10.B27)

Protective rights are defined as

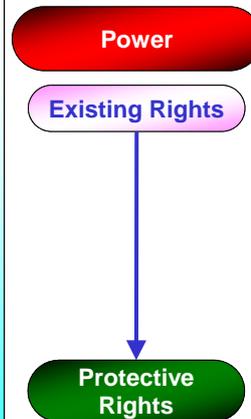
- Rights designed to protect the interest of the party holding those rights without giving that party power over the entity to which those rights relate.



Control

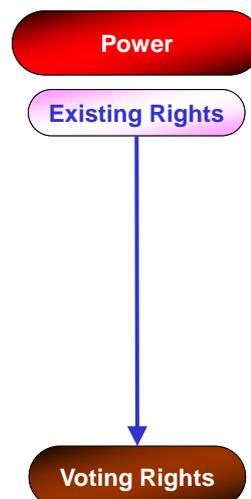
Example

- Examples of protective rights include but are not limited to:
 - a. a lender's right to restrict a borrower from undertaking activities that could significantly change the credit risk of the borrower to the detriment of the lender.
 - b. the right of a party holding a non-controlling interest in an investee
 - to approve capital expenditure greater than that required in the ordinary course of business, or
 - to approve the issue of equity or debt instruments.
 - c. the right of a lender to seize the assets of a borrower if the borrower fails to meet specified loan repayment conditions. (HKFRS 10.B28)



Control

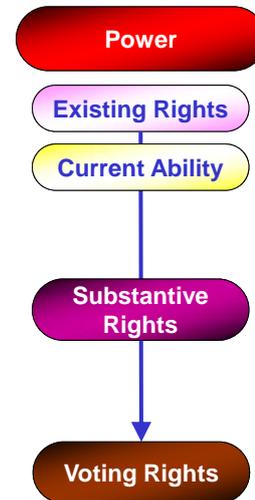
- Often an investor has the current ability, through voting or similar rights, to direct the relevant activities. (HKFRS 10.B34)
- An investor that holds more than half of the voting rights of an investee has power in the following situations, unless HKFRS 10.B36 or B37 applies:
 - a. the relevant activities
 - are directed by a vote of the holder of the majority of the voting rights, or
 - b. a majority of the members of the governing body that directs the relevant activities (e.g. directors)
 - are appointed by a vote of the holder of the majority of the voting rights. (HKFRS 10.B35)



Control

Majority of the Voting Rights But No Power

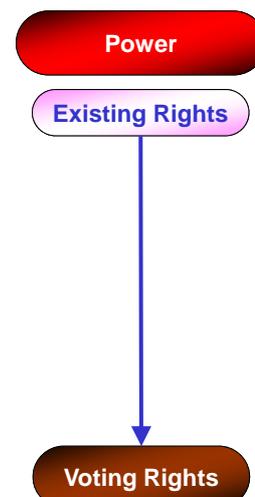
- For an investor that holds more than half of the voting rights of an investee, to have power over an investee,
 - the investor's voting rights
 - must be **substantive** (as discussed and in HKFRS 10.B22-B25) and
 - must provide the investor with the **current ability to direct the relevant activities**, which often will be through determining operating and financing policies.
- If another entity has existing rights that provide that entity with the right to direct the relevant activities and that entity is not an agent of the investor,
 - the investor does not have power over the investee. (HKFRS 10.B36)



Control

Majority of the Voting Rights But No Power

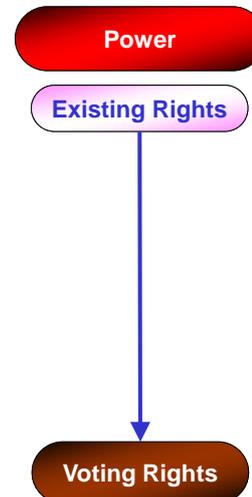
- An investor does not have power over an investee, even though the investor holds the majority of the voting rights in the investee, when those voting rights are not substantive.
 - For example, an investor that has more than half of the voting rights in an investee cannot have power if the relevant activities are subject to direction by a government, court, administrator, receiver, liquidator or regulator. (HKFRS 10.B37)



Control

Power without a Majority of the Voting Rights

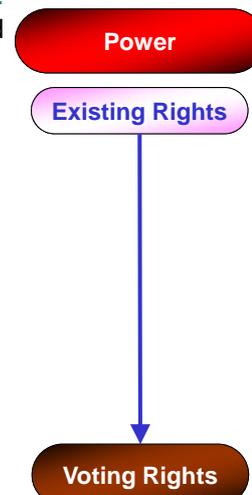
- An investor can have power even if it holds less than a majority of the voting rights of an investee.
- An investor can have power with less than a majority of the voting rights of an investee, for example, through:
 - a. a contractual arrangement between the investor and other vote holders;
 - b. rights arising from other contractual arrangements;
 - c. the investor's voting rights;
 - d. potential voting rights; or
 - e. a combination of (a)–(d). (HKFRS 10.B38)



Control

Contractual Arrangement with Other Vote Holders

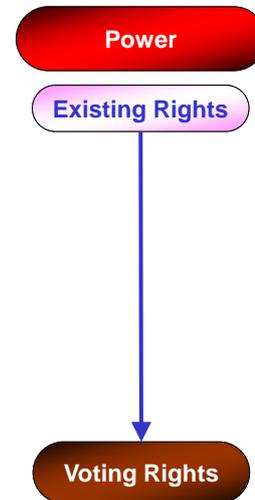
- A contractual arrangement between an investor and other vote holders can give the investor the right to exercise voting rights sufficient to give the investor power,
 - even if the investor does not have voting rights sufficient to give it power without the contractual arrangement.
- However, a contractual arrangement might ensure that the investor can direct enough other vote holders on how to vote to enable the investor to make decisions about the relevant activities. (HKFRS 10.B39)



Control

Rights from Other Contractual Arrangements

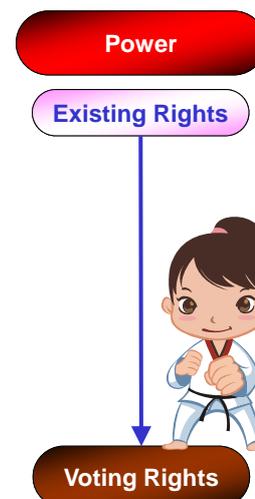
- Other decision-making rights, in combination with voting rights, can give an investor the current ability to direct the relevant activities.
 - For example, the rights specified in a contractual arrangement in combination with voting rights may be sufficient to give an investor the current ability
 - to direct the manufacturing processes of an investee or to direct other operating or financing activities of an investee that significantly affect the investee's returns.
- However, in the absence of any other rights, economic dependence of an investee on the investor (such as relations of a supplier with its main customer) does not lead to the investor having power over the investee. (HKFRS 10.B40)



Control

The Investor's Voting Rights

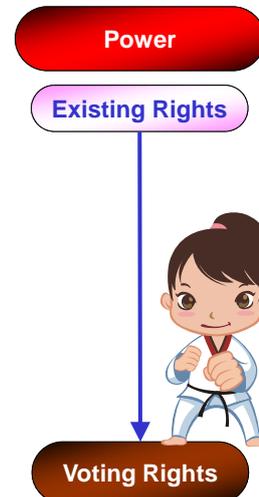
- An investor with less than a majority of the voting rights has rights that are sufficient to give it power when the investor has the practical ability to direct the relevant activities unilaterally. (HKFRS 10.B41)



Control

The Investor's Voting Rights

- When the direction of relevant activities is determined by majority vote and an investor holds significantly more voting rights than any other vote holder or organised group of vote holders, and the other shareholdings are widely dispersed,
 - it may be clear, after considering the factors as listed alone, that the investor has power over the investee. (HKFRS 10.B43)



Control

Example

- An investor acquires 48% of the voting rights of an investee.
- The remaining voting rights are held by thousands of shareholders, none individually holding more than 1% of the voting rights.
- None of the shareholders has any arrangements to consult any of the others or make collective decisions.
- When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the investor determined that a 48% interest would be sufficient to give it control.
- In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power. (HKFRS 10 Example 4)



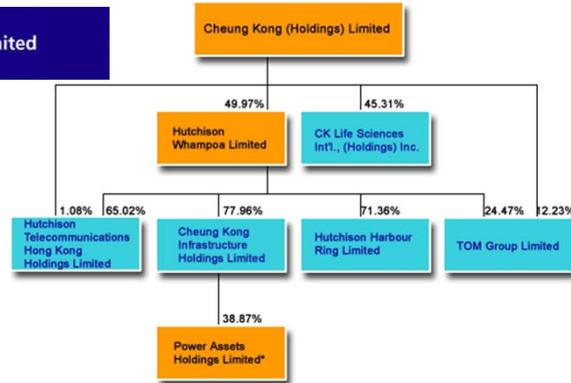
HKFRS 10

Case



Cheung Kong (Holdings) Limited

Group Structure (as at 30.4.2012)



■ constituent stocks of the Hang Seng Index
■ companies listed on the Main Board of the Hong Kong Stock Exchange

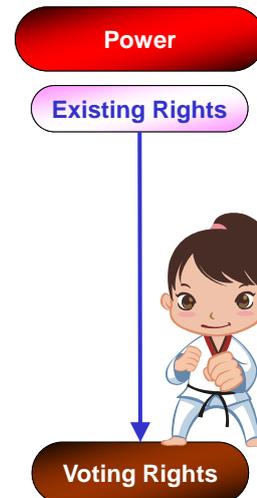
*Formerly known as Hongkong Electric Holdings Limited and named Power Assets Holdings Limited on February 16, 2011

The above only features listed companies of Cheung Kong Group in Hong Kong. Companies listed outside of Hong Kong are not depicted here.

Control

The Investor's Voting Rights

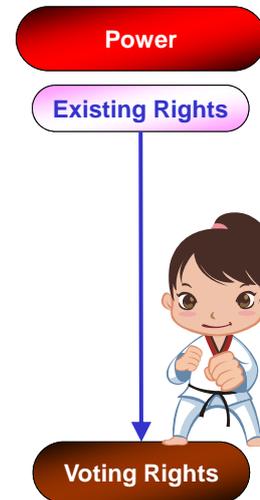
- The factors listed in HKFRS 10.B42(a)–(c) (as discussed) alone may not be conclusive.
- If an investor, having considered those factors, is unclear whether it has power, it shall consider additional facts and circumstances, such as whether other shareholders are passive in nature as demonstrated by voting patterns at previous shareholders' meetings.



Control

The Investor's Voting Rights

- The fewer voting rights the investor holds, and the fewer parties that would need to act together to outvote the investor,
 - the more reliance would be placed on the additional facts and circumstances to assess whether the investor's rights are sufficient to give it power. (HKFRS 10.B45)
- If it is not clear, having considered the factors, that the investor has power,
 - the investor does not control the investee. (HKFRS 10.B46)



Control

Example

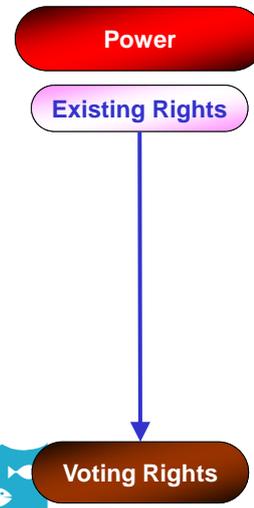
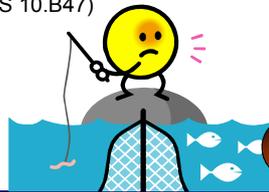
- An investor holds 45% of the voting rights of an investee.
- Eleven other shareholders each hold 5% of the voting rights of the investee.
- None of the shareholders has contractual arrangements to consult any of the others or make collective decisions.
- In this case, the absolute size of the investor's holding and the relative size of the other shareholdings alone are not conclusive in determining whether the investor has rights sufficient to give it power over the investee.
- Additional facts and circumstances that may provide evidence that the investor has, or does not have, power shall be considered. (HKFRS 10 Example 7)



Control

Potential Voting Rights

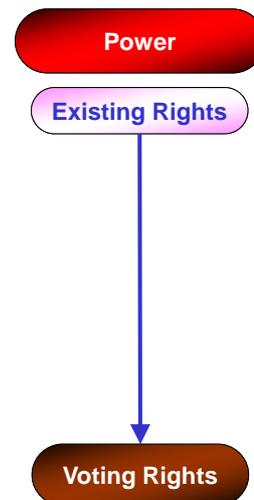
- When assessing control, an investor considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has power.
- Potential voting rights are
 - rights to obtain voting rights of an investee, such as those arising from convertible instruments or options, including forward contracts.
- Those potential voting rights are considered only if the rights are substantive. (HKFRS 10.B47)



Control

Potential Voting Rights

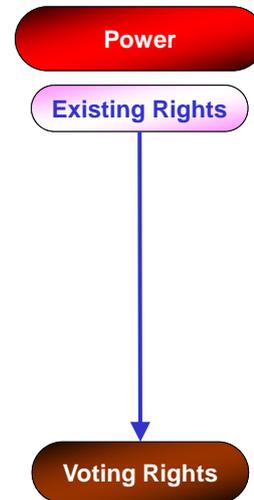
- When considering potential voting rights, an investor shall consider the purpose and design of the instrument, as well as the purpose and design of any other involvement the investor has with the investee.
 - This includes an assessment of the various terms and conditions of the instrument as well as the investor's apparent expectations, motives and reasons for agreeing to those terms and conditions. (HKFRS 10.B48)
- If the investor also has voting or other decision-making rights relating to the investee's activities, the investor assesses whether those rights, in combination with potential voting rights, give the investor power. (HKFRS 10.B49)



Control

Potential Voting Rights

- Substantive potential voting rights alone, or in combination with other rights, can give an investor the current ability to direct the relevant activities. (HKFRS 10.B50)



Control

Example

Investor A

- holds 70% of the voting rights of an investee.
- has been exercising its votes and is actively directing the relevant activities of the investee.

Investor B

- has 30% of the voting rights of the investee as well as an option to acquire half of investor A's voting rights.
 - The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). (HKFRS 10 Example 9)

In such a case, investor A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities.

Although investor B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the investee), the terms and conditions associated with those options are such that the options are not considered substantive.

Voting Rights

Control

Example

- Investor A and two other investors each hold a third of the voting rights of an investee.
- The investee's business activity is closely related to investor A.
- In addition to its equity instruments, investor A also holds debt instruments that are convertible into ordinary shares of the investee at any time for a fixed price that is out of the money (but not deeply out of the money).
- If the debt were converted, investor A would hold 60% of the voting rights of the investee.
- Investor A would benefit from realising synergies if the debt instruments were converted into ordinary shares. (HKFRS 10 Example 10)

Investor A has power over the investee

- because it holds voting rights of the investee together with substantive potential voting rights that give it the current ability to direct the relevant activities.

Voting Rights

Control

- When assessing whether an investor has control of an investee,
 - the investor determines whether it is exposed, or has rights, to variable returns from its involvement with the investee.
- An investor is exposed, or has rights, to variable returns from its involvement with the investee when the investor's returns from its involvement have the potential to vary as a result of the investee's performance.
 - The investor's returns can be only positive, only negative or both positive and negative (HKFRS 10.15)

Power

Returns



Control

- Although only one investor can control an investee, more than one party can share in the returns of an investee.
 - For example, holders of non-controlling interests can share in the profits or distributions of an investee (HKFRS 10.16)

Returns



Control

Example

- Examples of returns include:
 - a. dividends, other distributions of economic benefits from an investee and changes in the value of the investor's investment in that investee.
 - b. remuneration for servicing an investee's assets or liabilities, fees and exposure to loss from providing credit or liquidity support, residual interests in the investee's assets and liabilities on liquidation of that investee, tax benefits, and access to future liquidity that an investor has from its involvement with an investee.
 - c. returns that are not available to other interest holders. (HKFRS 10.B57)

Returns



Control

- An investor controls an investee if the investor
 - not only has power over the investee and exposure or rights to variable returns from its involvement with the investee,
 - but also has the ability to use its power to affect the investor's returns from its involvement with the investee (HKFRS 10.17)
- Thus, an investor with decision-making rights shall determine whether it is
 - a principal or
 - an agent.
 - An investor that is an agent in accordance with HKFRS 10.B58–B72 does not control an investee when it exercises decision-making rights delegated to it (HKFRS 10.18)

Power

Returns

Link between
Power & Returns



Control

- An investor shall also determine whether another entity with decision-making rights is acting as an agent for the investor.
- An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (the principal(s)) and
 - therefore does not control the investee when it exercises its decision-making authority.
- Thus, sometimes a principal's power may be held and exercisable by an agent, but on behalf of the principal.
- A decision maker is not an agent simply because other parties can benefit from the decisions that it makes. (HKFRS 10.B58)

Link between
Power & Returns



Control

- A decision maker shall consider the overall relationship between itself, the investee being managed and other parties involved with the investee, in particular all the factors below, in determining whether it is an agent:
 - a. the scope of its decision-making authority over the investee.
 - b. the rights held by other parties.
 - c. the remuneration to which it is entitled in accordance with the remuneration agreement(s).
 - d. the decision maker's exposure to variability of returns from other interests that it holds in the investee.
- Different weightings shall be applied to each of the factors on the basis of particular facts and circumstances. (HKFRS 10.B60)

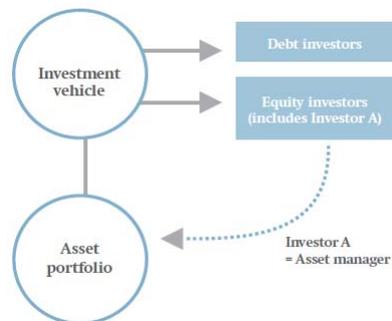
Link between Power & Returns



Control

Example

- An investment vehicle
 - It is created to purchase a portfolio of financial assets, funded by debt and equity instruments issued to a number of investors.
 - The equity tranche is designed to absorb the first losses and to receive residual returns of the investee.
- Investor A holds 30% of the equity
 - is also the asset manager who manages the vehicle's asset portfolio within portfolio guidelines.
 - The management includes decisions about
 - the selection, acquisition and disposal of the assets within those portfolio guidelines and
 - the management upon default of any asset in the portfolio.



Control

Example

- In applying HK(SIC)-Int 12, some would conclude that Investor A does not consolidate the investment vehicle.
 - Investor A holds 30% of the equity and therefore does not bear the majority of the risks and rewards.
 - The investment vehicle was arguably created for the benefit of all investors, and not only for the benefit of Investor A.
- According to IFRS 10, Investor A controls the investment vehicle.
 - Investor A
 - has the ability to direct the relevant activities,
 - has rights to variable returns from the performance of the vehicle and
 - has the ability to use its power to affect its own returns.

HKFRS 10: Real Case

Case

 Cheung Kong (Holdings) Limited

- 長實換核數師 擬準備重組
(《爽報》2012.04.11)
 - 長實(001)昨發通函,建議委任羅兵咸為公司新核數師,取代已沿用了逾40年的德勤,而羅兵咸則一直是同系和黃(013)的核數師。
 - 有資深執業會計師估計(?),此舉不排除是為整個長和系重組作準備。
 - 資深執業會計師林智遠表示,由於新會計準則《香港財務報告準則10號》將於明年1月1日生效,而該新準則主要是要同系上市公司之間的關係釐清,而長實與和黃一直是聯營公司關係,所以是次長實換了與和黃同一核數師,不排除就是為該新準則生效前作重組而準備。
 - 不過,長實副董事總經理葉德銓昨傍晚於電話會議中表示,目前並無計劃將長實與和黃進行重組,更換核數師並非為了易於重組,也不擔心兩公司起用同一核數師會影響兩者的透明度及獨立性。

HKFRS 10: Real Case

Case

 Cheung Kong (Holdings) Limited

- 瑞信:長實換核數師純為迎接新會計準則(《信報》2012.04.12)
 - 長實日前宣布棄用德勤,改用跟和黃(00013)一樣的核數師羅兵咸,瑞信認為是為明年生效的新會計準則作準備,屆時和黃的負債亦要全面併入長實,故採用同一核數師會更有效率。
 - 瑞信指出,基於和黃負債高,在新會計準則下,長實的淨負債比率會被扯高,以上年度為例,會由8%升至53%,該行初步認同長實管理層早前講法,相信借貸成本不會因而上升,但實際情況仍要視乎債權人反應。
 - 瑞信認為,淨負債比率在新例下急升,不足以驅使長實進行架構重組,反而股價較資產淨值大幅折讓逾60%,遠高於歷史平均值的30%,或成為重組誘因。

HKFRS 10: Real Case

Case

 Cheung Kong (Holdings) Limited

- 瑞信:長實換核數師純為迎接新會計準則(《信報》2012.04.12)
 - 該行指,要縮窄股價對資產淨值折讓幅度,長實或把持有的和黃股份直接分派予股東,又或把地產業務分拆並派送予股東,但就相信架構重組短期內不會發生。
 - 不過,基於存在重組機會,加上長實今年有多個新盤推售,和黃業務表現又強勁,瑞信重申,長實是本地地產股中的首選。

HKFRS 10: Real Case

Case

 Cheung Kong (Holdings) Limited

- 瑞信：長實換核數師料為新會計準則
(《經濟日報》2012.04.12)
 - 長實(00001)周二宣布，建議將聘用近40年的德勤·關黃陳方會計師行換走，改用羅兵咸永道，與和黃(00013)看齊。消息令長實連日受壓，今早仍逆市微挫0.15%。雖然更換核數師令市場不安，但瑞信認為，此舉可能只是為新會計準則作準備。
 - 瑞信指出，在新會計準則HKFRS10之下，和黃的資產負債表將併入長實，而兩家公司用同一家核數師行，將便利資產負債表合併。該行補充指，新會計準則將於2013年1月生效，該準則將看重母公司的「控制」多於其於子公司取得多少經濟利益。

?

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12 HKFRS 10 (and 12)

Control as the basis for consolidation

- HKAS 27 identifies control as the basis for consolidation and focuses on the power to govern the financial and operating policies for assessing control of typical operating entities.
- In contrast, HK(SIC)-Int 12 focuses on risks and rewards for assessing control of special purpose entities.

HKFRS 10 identifies control as the single basis for consolidation for all types of entities.

- There is no separate guidance with a different consolidation model for special purposes entities (as incorporated into the single consolidation model in IFRS 10)
- The new control definition reflects that an investor can achieve power over an investee in many ways, not just through governing financial and operating policies.
- The investor must assess whether it has rights to direct the relevant activities.
- Although exposure to risks and rewards is an indicator of control, it is not the sole focus for consolidation for any type of entity.

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12

HKFRS 10 (and 12)

Control without a majority of voting rights

- Although the idea that an investor could control an investee while holding less than 50% of the voting rights was implicit in HKAS 27, it was not explicitly stated.

HKFRS 10 states that an investor can control an investee with less than 50% of the voting rights of the investee.

- HKFRS 10 provides specific application guidance for assessing control in such cases.

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12

HKFRS 10 (and 12)

Potential voting rights

- Only *currently exercisable* potential voting rights are considered when assessing control.

Potential voting rights need to be considered in assessing control, but only if they are ***substantive***.

- Potential voting rights are substantive
 - when the holder has the practical ability to exercise its rights and
 - when those rights are exercisable when decisions about the direction of the relevant activities need to be made.
 - Deciding whether potential voting rights are substantive requires judgement.
- Potential voting rights may need to be considered even if they are not currently exercisable.

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12

HKFRS 10 (and 12)

Agency relationships

- HKAS 27 has no specific guidance regarding situations when power is delegated by a principal to an agent.

HKFRS 10 contains specific application guidance for agency relationships.

- When decision-making authority has been delegated by a principal to an agent, an agent in such a relationship does not control the entity.
- The principal that has delegated the decision-making authority would consolidate the entity.
- The application guidance offers a range of factors to consider and contains examples.

HKFRS 10: Summary of Key Changes

HKAS 27 & HK(SIC)-Int 12

HKFRS 10 (and 12)

Disclosures

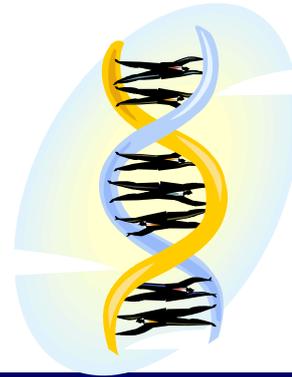
- HKAS 27 and HK(SIC)-Int 12 contain limited disclosure requirements for consolidated entities and no disclosure requirements for unconsolidated structured entities.

HKFRS 12 expands the disclosure requirements for both consolidated entities and unconsolidated structured entities.

- The disclosure objectives in HKFRS 12 will give preparers flexibility to tailor their individual disclosures to meet these objectives.
- HKFRS 12 presents a single disclosure standard for reporting entities with special relationships with other entities, including subsidiaries, joint ventures, associates and unconsolidated structured entities.

HKFRS 10: Accounting Requirements

- A parent shall prepare consolidated financial statements
 - using uniform accounting policies for like transactions and other events in similar circumstances (HKFRS 10.19)
- Consolidation of an investee shall
 - begin from the date the investor obtains control of the investee and
 - cease when the investor loses control of the investee (HKFRS 10.20)
- HKFRS 10.B86–B93 set out guidance for the preparation of consolidated financial statements (HKFRS 10.21)



HKFRS 10: Effective Date

- An entity shall apply HKFRS 11 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- If an entity applies HKFRS 10 earlier, it shall disclose that fact and apply HKFRS 11, HKFRS 12, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) at the same time. (HKFRS 10.C1)



HKFRS 10: Real Case

Case

 Cheung Kong (Holdings) Limited

- 公司重新分類 影響入帳方式
(《經濟日報》《三十七計》楊青峰 2012.04.18)
 - 根據長實的財務報表附錄二，長實間接擁有和黃已發行普通股股權的49.9%，故分類和黃為長實的聯營公司... 根據《香港會計準則27》通常指那些被母公司持有50%以上表決權的公司，這另一公司就是母公司的附屬公司，母公司是要把所有附屬公司的財務報告，逐項逐項合併入母公司的綜合財務報告 (consolidated financial statements) 內。
 - 可是，由於《香港財務報告準則10》將於明年開始生效，代替大部分原《香港會計準則27》的要求，母公司不可再單純以擁有一間公司50%以上的表決權，去決定這間公司是受母公司「控制」。故此，長實雖然並沒有擁有和黃50%以上的表決權，但分析員普遍估計和黃有可能被當為受長實的「控制」，而和黃亦可能被重新分類為長實的附屬公司 (subsidiary)。

HKFRS 10: Real Case

Case

 Cheung Kong (Holdings) Limited

- 公司重新分類 影響入帳方式
(《經濟日報》《三十七計》楊青峰 2012.04.18)
 - 假設長實不能把和黃分類為聯營公司，要重新分類和黃為附屬公司，結果就如分析員的估計一樣，和黃的負債要全面併入長實的綜合財務報表。2011年底，長實的總負債是589億港元，和黃的總負債是3,218億港元，綜合財務狀況表的總負債將上升五倍以上。

Today's Agenda



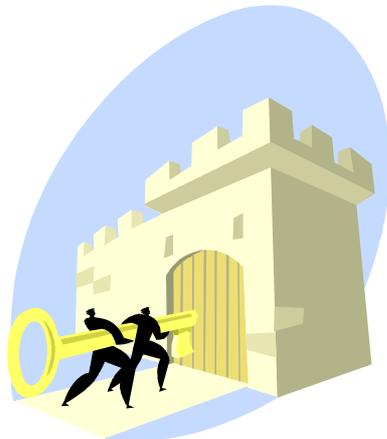
HKFRS 10 *Consolidated Financial Statements*

HKFRS 11 *Joint Arrangements*

HKFRS 12 *Disclosure of Interests in Other Entities*

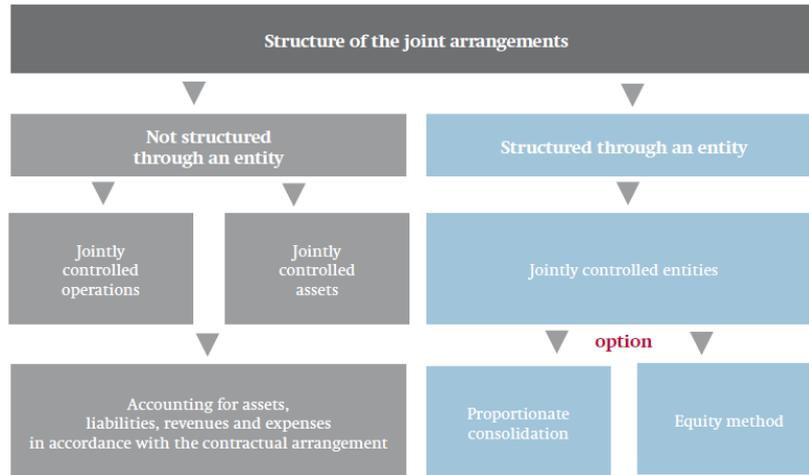
Joint Arrangements

(HKFRS 11)



HKFRS 11 Joint Arrangements

Previously in HKAS 31

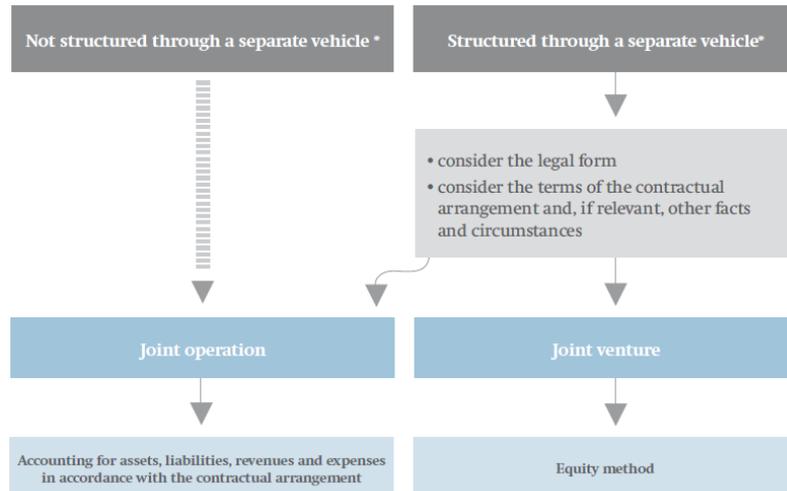


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•The graph is adapted from the IASB 73

HKFRS 11 Joint Arrangements

Introduced and amended in HKFRS 11



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•The graph is adapted from the IASB 74

HKFRS 11 Joint Arrangements

Case



Cheung Kong (Holdings) Limited



Hopewell Highway Infrastructure Limited
合和公路基建有限公司

- 合營企業不再按比例入帳
(《經濟日報》《三十七計》楊青峰 2012.04.25)
 - 長實財務報表附註2(四)就解釋「共同發展公司(即共同控制實體)乃本集團長期持有其股本權益,及根據合約安排其財政和營運政策均由本集團及其他參與者共同控制之公司」。
 - 合和公路基建(00737)2011年財務報表附註3,就進一步解釋「共同控制」,是指「在作出有關商業業務之策略性財務及營運政策時,須獲享有控制權各方一致同意(unanimous consent)」。

To be changed

HKFRS 11 Joint Arrangements

Case



Cheung Kong (Holdings) Limited



Hopewell Highway Infrastructure Limited
合和公路基建有限公司

- 合營企業不再按比例入帳
(《經濟日報》《三十七計》楊青峰 2012.04.25)
 - 雖然投資模式和分類是一樣,但公司是可選擇共同控制實體的會計入帳方法,而表現出來的財務效果也會有很大分別。
 - 長實選擇了用權益法處理共同控制實體的入帳,此方法跟上次分析聯營公司的入帳方法是一樣。
 - 但合和基建卻用了比例合併或綜合法(proportionate consolidation),即如合和基建解釋,根據合和基建應佔共同控制實體的資產、負債、收入及支出,與其「相若項目按逐項基準於綜合財務報表中綜合」。故此,每一項合和基建的資產、負債、收入及支出,都合併了合和基建所佔共同控制實體的份額。

Joint Control

- **Joint Arrangement,**

- a new name to subrogate joint venture, simultaneously, joint venture has another meaning now
- is defined to be an arrangement of which two or more parties have **joint control**.
- has the following characteristics:
 - a. The parties are bound by a contractual arrangement.
 - b. The contractual arrangement gives two or more of those parties joint control of the arrangement. (HKFRS 11.4-5)

Joint control is defined as

- the contractually agreed sharing of control of an arrangement,
- which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. (HKFRS 11.7)



Joint Control

- The requirement for unanimous consent means that
 - any party with joint control of the arrangement can prevent any of the other parties, or a group of the parties, from making unilateral decisions (about the relevant activities) without its consent.
- If the requirement for unanimous consent relates only to decisions that give a party protective rights and not to decisions about the relevant activities of an arrangement, that party is not a party with joint control of the arrangement. (HKFRS 11.B9)



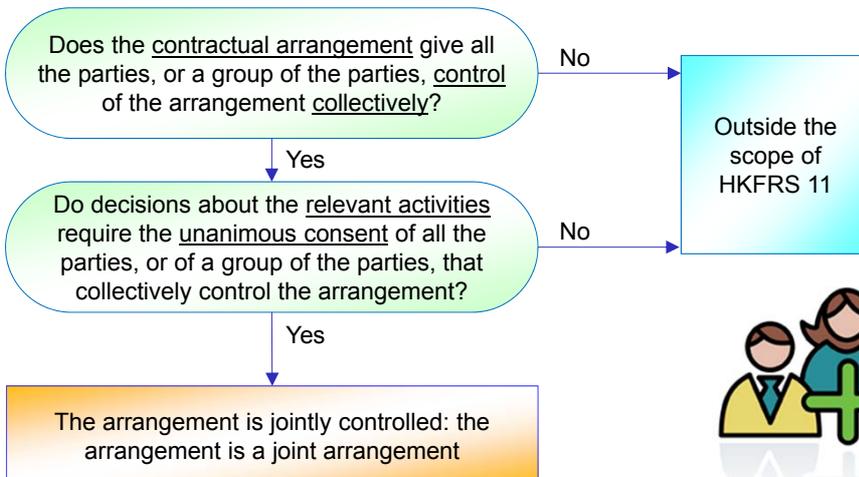
Joint Control

- A contractual arrangement might include clauses on the resolution of disputes, such as arbitration.
- These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control.
- The existence of such provisions does not prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement. (HKFRS 11.B10)



Joint Control

Assessing Joint Control



Joint Control

- An entity that is a party to an arrangement shall assess whether the contractual arrangement gives all the parties, or a group of the parties, control of the arrangement collectively.
 - All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the activities that significantly affect the returns of the arrangement (ie the relevant activities). (HKFRS 11.8)
- Once it has been determined that all the parties, or a group of the parties, control the arrangement collectively,
 - joint control exists only when decisions about the relevant activities require the unanimous consent of the parties that control the arrangement collectively. (HKFRS 11.9)



Joint Control

- In a joint arrangement,
 - no single party controls the arrangement on its own.
- A party with joint control of an arrangement can prevent any of the other parties, or a group of the parties, from controlling the arrangement. (HKFRS 11.10)
- An arrangement can be a joint arrangement even though not all of its parties have joint control of the arrangement.
- HKFRS 11 distinguishes between
 - parties that have joint control of a joint arrangement (joint operators or joint venturers) and
 - parties that participate in, but do not have joint control of, a joint arrangement. (HKFRS 11.11)



Joint Control

Example

- Assume that three parties establish an arrangement:
 - A has 50% of the voting rights in the arrangement,
 - B has 30% and
 - C has 20%.
- The contractual arrangement between A, B and C specifies that at least 75% of the voting rights are required to make decisions about the relevant activities of the arrangement.
- Even though A can block any decision,
 - it does not control the arrangement because it needs the agreement of B.
- The terms of their contractual arrangement requiring at least 75% of the voting rights to make decisions about the relevant activities imply that
 - A and B have joint control of the arrangement because decisions about the relevant activities of the arrangement cannot be made without both A and B agreeing. (HKFRS 11 Example 1)

Type of Joint Arrangements

- In consequence, joint arrangement is a new name to subrogate joint venture,
 - simultaneously, joint venture has another meaning now
- A new structure in classification, a joint arrangement is either (HKFRS 11.6)

Joint Operation

Joint Venture



Type of Joint Arrangements

Joint Operation

A joint operation is

- a joint arrangement whereby the parties that have joint control of the arrangement have rights to **the assets, and obligations for the liabilities**, relating to the arrangement.
- Those parties are called joint operators (HKFRS 11.15).

Joint Venture

A joint venture is

- a joint arrangement whereby the parties that have joint control of the arrangement have rights to the **net assets** of the arrangement.
- Those parties are called joint venturers (HKFRS 11.16).

Type of Joint Arrangements

Joint Operation

- An entity shall determine the type of joint arrangement in which it is involved.
- The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. (HKFRS 11.14)

Joint Venture



Type of Joint Arrangements

Joint Operation

Joint Venture

- An entity applies judgement when assessing whether a joint arrangement is a joint operation or a joint venture.
- An entity shall determine the type of joint arrangement in which it is involved by considering its rights and obligations arising from the arrangement.
- An entity assesses its rights and obligations by considering
 - the structure and legal form of the arrangement,
 - the terms agreed by the parties in the contractual arrangement and,
 - when relevant, other facts and circumstances. (HKFRS 11.17)

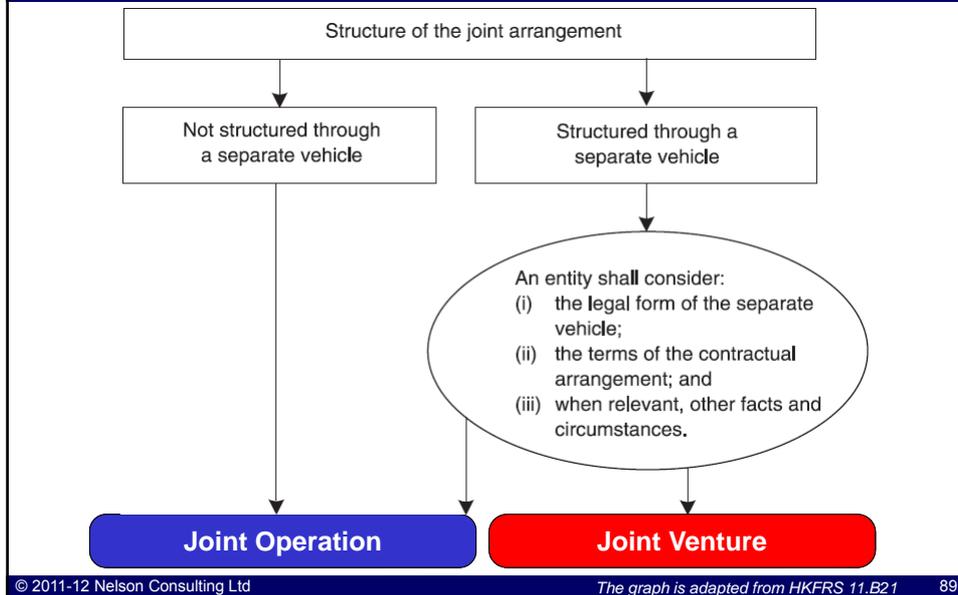
Type of Joint Arrangements

Joint Operation

Joint Venture

- When making assessment the rights and obligations arising from the arrangement, an entity shall consider the following:
 - a. the structure of the joint arrangement
 - b. when the joint arrangement is structured through a separate vehicle:
 - i. the legal form of the separate vehicle;
 - ii. the terms of the contractual arrangement; and
 - iii. when relevant, other facts and circumstances. (HKFRS 11.B15)

Type of Joint Arrangements



Joint Operation

Joint Operation



- A joint operator shall recognise in relation to its interest in a joint operation:
 - a. its assets, including its share of any assets held jointly;
 - b. its liabilities, including its share of any liabilities incurred jointly;
 - c. its revenue from the sale of its share of the output arising from the joint operation;
 - d. its share of the revenue from the sale of the output by the joint operation; and
 - e. its expenses, including its share of any expenses incurred jointly. (HKFRS 11.20)

Joint Operation

Joint Operation



- A joint operator shall account for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses. (HKFRS 11.21)
- The accounting for transactions such as the sale, contribution or purchase of assets between an entity and a joint operation in which it is a joint operator is specified in HKFRS 11.B34–B37. (HKFRS 11.22)

Joint Venture



Joint Venture

- A joint venturer
 - shall recognise its interest in a joint venture as an investment and
 - shall account for that investment using the equity method in accordance with HKAS 28 *Investments in Associates and Joint Ventures*
 - unless the entity is exempted from applying the equity method as specified in HKAS 28 (HKFRS 11.24).
- HKAS 28 is renamed as “Investments in Associates and Joint Ventures”

Joint Venture



Joint Venture

- A party that participates in, but does not have joint control of, a joint venture
 - shall account for its interest in the arrangement in accordance with HKFRS 9 *Financial Instruments*,
 - unless it has significant influence over the joint venture, in which case it shall account for it in accordance with HKAS 28 (as amended in 2011). (HKFRS 11.25)

HKFRS 11: Real Case

Case

 Cheung Kong (Holdings) Limited

 Hopewell Highway Infrastructure Limited
合和公路基建有限公司

- 合營企業不再按比例入帳
(《經濟日報》《三十七計》楊青峰 2012.04.25)
 - 隨着《香港財務報告準則10》將於明年開始生效，《香港財務報告準則11》也會同時取代《香港會計準則31》，合營企業將改名為合營安排 (joint arrangement)，合營企業將只是其中一種合營安排，與現在共同控制實體的概念相類似。
 - 而過去的共同控制經營和共同控制資產將結合歸類為共同經營 (joint operation)，
 - 部分現在的共同控制實體也可能歸入為共同經營。

Change

HKFRS 11: Real Case

Case



Cheung Kong (Holdings) Limited



Hopewell Highway Infrastructure Limited
合和公路基建有限公司

- 合營企業不再按比例入帳
(《經濟日報》《三十七計》楊青峰 2012.04.25)
 - 最重要的改動，是母公司將不能再自由選擇合營企業的會計入帳方法。所有母公司必須按合營安排下各方的權利和義務，來確定某一合營安排是共同經營，還是合營企業，而公司必須以權益法處理合營企業的入帳，而不能用比例合併法合併合營企業的帳項。
 - 這一連串會計方法的改動，對已經採用權益法處理共同控制實體的公司，例如長實，影響相信不大；
 - 但對於採用比例合併法處理共同控制實體的公司，例如合和基建，就會有較大的不確定性或影響，因為假如合和基建或其他公司必需要用權益法，去處理被歸類為合營企業的共同控制實體，他們將不能把合營企業的資產、負債、收入及支出，按比例併入公司的財務報表內。

HKFRS 11: Real Case

Case



Cheung Kong (Holdings) Limited



Hopewell Highway Infrastructure Limited
合和公路基建有限公司

- 合營企業不再按比例入帳
(《經濟日報》《三十七計》楊青峰 2012.04.25)
 - 因為會計準則的改變，相關公司所佔合營企業的資產、負債、收入或支出將不能併入帳內而可能大幅減少，投資者不能不小心分析箇中變化的影響。

HKFRS 11: Effective Date

- An entity shall apply HKFRS 11 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- If an entity applies HKFRS 11 earlier, it shall disclose that fact and apply HKFRS 10, HKFRS 12, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) at the same time. (HKFRS 11.C1)



Today's Agenda



HKFRS 10 *Consolidated Financial Statements*

HKFRS 11 Joint Arrangements

HKFRS 12 Disclosure of Interests in Other Entities

Disclosure of Interests in Other Entities

(HKFRS 12)



HKFRS 12 Discl. of Interest in Other Entities

- The objective of HKFRS 12 is to require an entity to disclose information that enables users of its financial statements to evaluate:
 - a. the nature of, and risks associated with, its interests in other entities; and
 - b. the effects of those interests on its financial position, financial performance and cash flows (HKFRS 12.1).



HKFRS 12 Disc. of Interest in Other Entities

- For the purpose of HKFRS 12, an interest in another entity
 - refers to contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity.
 - can be evidenced by, but is not limited to,
 - the holding of equity or debt instruments as well as other forms of involvement such as the provision of funding, liquidity support, credit enhancement and guarantees.
 - includes the means by which an entity has control or joint control of, or significant influence over, another entity.
- An entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.



HKFRS 12 Disc. of Interest in Other Entities

- To meet the objective of HKFRS 12, an entity shall disclose:
 - a. the significant judgements and assumptions it has made
 - in determining the nature of its interest in another entity or arrangement, and
 - in determining the type of joint arrangement in which it has an interest; and
 - b. information about its interests in:
 - i. subsidiaries;
 - ii. joint arrangements and associates; and
 - iii. **structured entities** that are not controlled by the entity (unconsolidated structured entities) (HKFRS 12.2).



What is Structured Entity?

HKFRS 12 Discl. of Interest in Other Entities

- Structured entity is defined as:
 - An entity that has been designed so that
 - voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and
 - the relevant activities are directed by means of contractual arrangements.
- HKFRS 12.B22–B24 provide further information about structured entities.



What is
Structured Entity?

HKFRS 12 Discl. of Interest in Other Entities

- Structured entity often has some or all of the following features or attributes:
 - a. restricted activities.
 - b. a narrow and well-defined objective, such as
 - to effect a tax-efficient lease,
 - to carry out research and development activities,
 - to provide a source of capital or funding to an entity or
 - to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors.
 - c. insufficient equity to permit the structured entity to finance its activities without subordinated financial support.
 - d. financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches). (HKFRS 12.B22).



Examples include:

- a. securitisation vehicles,
- b. asset-backed financings.
- c. some investment funds.

What is
Structured Entity?

Unconsolidated Structured Entities

- An entity shall disclose information that enables users of its financial statements:
 - to understand the nature and extent of its interests in unconsolidated structured entities; and
 - to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities. (HKFRS 12.24)
- An entity shall disclose
 - qualitative and quantitative information about its interests in unconsolidated structured entities, including, but not limited to, the nature, purpose, size and activities of the structured entity and
 - how the structured entity is financed. (HKFRS 12.26)



HKFRS 12: Summary

Case

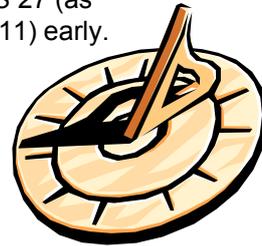


Quarterly Report 2012 (for 3 months ended 31.3.2012)

- Notes To The Condensed Consolidated Financial Statements (Unaudited)
 - HKFRS 12
 - specifies the disclosure requirements for
 - subsidiaries,
 - joint arrangements and
 - associates, and
 - introduces new requirements for unconsolidated structured entities.
 - The adoption of HKFRS 12 may affect certain disclosures of the Group's annual financial statements.

HKFRS 12: Effective Date

- An entity shall apply HKFRS 12 for annual periods beginning on or after 1 January 2013.
- Earlier application is permitted.
- An entity is encouraged to provide information required by HKFRS 12 earlier than annual periods beginning on or after 1 January 2013.
- Providing some of the disclosures required by HKFRS 12 does not compel the entity to comply with all the requirements of HKFRS 12 or to apply HKFRS 10, HKFRS 11, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) early. (HKFRS 12.C1)



Financial Reporting Update

On Consolidated Financial Statements and Joint Arrangements

11 July 2012



Full version of slides in PDF can be found in

www.NelsonCPA.com.hk

www.Facebook.com/NelsonCPA

LAM Chi Yuen Nelson 林智遠

nelson@nelsoncpa.com.hk

www.NelsonCPA.com.hk

www.Facebook.com/NelsonCPA

Financial Reporting Update

On Consolidated Financial Statements and Joint Arrangements

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LAM Chi Yuen Nelson 林智遠

nelson@nelsoncpa.com.hk

www.NelsonCPA.com.hk

www.Facebook.com/NelsonCPA