Financial Reporting Update 2016
(with Sample Financial Statements for Year Ended 31 December 2015)

Effective for 2015 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

- Annual Improvements 2010-2012 Cycle
- Annual Improvements 2011-2013 Cycle
- SME-FRF and SME-FRS (Revised 2014) (pursuant to the New Companies Ordinance (Cap. 622) effective from 3 Mar. 2014)

- Accounting Bulletin 5 Guidance for the Preparation of a Business Review under the Hong Kong Companies Ordinance Cap. 622
- Accounting Bulletin 6 Guidance on the Requirements of Section 436 of the Hong Kong Companies Ordinance Cap. 622

Effective for periods beginning on/after

- 1 Jul. 2014
- 1 Jul. 2014 (or other)
- 1 Jul. 2014 (or other)
- 1 Jul. 2014 (or other)
- 3 Mar. 2014 (early application not allowed)
Effective for 2016 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

- Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants
- Amendments to HKAS 27 Equity Method in Separate Financial Statements
- Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS 1 Disclosure Initiative
- Amendments to HKFRS 10 and 12 and HKAS 28 Investment Entities: Applying the Consolidation Exception
- HKFRS 14 Regulatory Deferral Accounts

Effective for periods beginning on/after

- 1 Jan. 2016
- 1 Jan. 2016
- 1 Jan. 2016
- 1 Jan. 2016
- 1 Jan. 2016
- 1 Jan. 2016
- 1 Jan. 2016
- 1 Jan. 2016
- 1 Jan. 2016

Effective after 2016 Dec. Year-End

Selected new interpretations and amendments to HKFRSs

- HKFRS 9 (2014) Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Amendments to HKFRS 15 Effective Date of HKFRS 15 Revenue from Contracts with Customers
- Amendments to HKFRS for Private Entities

IFRS to be adopted by HKICPA

- IFRS 16 Leases

Effective for periods beginning on/after

- 1 Jan. 2018
- 1 Jan. 2017
- 1 Jan. 2018
- 1 Jan. 2017
- 1 Jan. 2019
Today’s Agenda

Recap of Amendments to HKFRSs Effective for 2015 Dec. Year-end
Recap & Update of New CO Relevant to Financial Reporting & SME-FRS
Update of Amendments to HKFRSs Effective after 2015 Dec. Year-end

Full Presentation can be found in: www.Facebook.com/NelsonCFA
Today’s Agenda

Recap of Amendments to HKFRSs Effective for 2015 Dec. Year-end

Defined Benefit Plans: Employee Contributions (Amendments to HKAS 19 (2011))
Amendments to HKAS 19: Introduction

- The narrow-scope amendments to HKAS 19 (2011) Employee Benefits apply to contributions from employees or third parties to defined benefit plans.
  - The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.
  - The amendments are effective for annual periods beginning on or after 1 July 2014 with earlier application permitted.

Annual Improvements 2010-2012 Cycle
### A. Improvements 2010-12: Introduction

<table>
<thead>
<tr>
<th>HKFRS Amended</th>
<th>Subject of Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td>HKFRS 2 Share-based Payment</td>
<td>Definition of vesting conditions</td>
</tr>
<tr>
<td>HKFRS 3 Business Combinations</td>
<td>Accounting for contingent consideration in a business combination</td>
</tr>
<tr>
<td>HKFRS 8 Operating Segments</td>
<td>Aggregation of operating segments&lt;br&gt;Reconciliation of the total of the reportable segments’ assets to the entity’s assets</td>
</tr>
<tr>
<td>HKFRS 13 Fair Value Measurements</td>
<td>Short-term receivables and payables</td>
</tr>
<tr>
<td>HKAS 16 Property, Plant and Equipment</td>
<td>Revaluation method – proportionate restatement of accumulated depreciation</td>
</tr>
<tr>
<td>HKAS 24 Related Party Disclosures</td>
<td>Key management personnel</td>
</tr>
<tr>
<td>HKAS 38 Intangible Assets</td>
<td>Revaluation method – proportionate restatement of accumulated amortisation</td>
</tr>
</tbody>
</table>

### AI 2010-12: HKFRS 2

- In Appendix A,
  - the definitions of ‘market condition’ and ‘vesting conditions’ are amended and
  - the definitions of ‘performance condition’ and ‘service condition’ are added.
- **Vesting conditions** is amended as:
  - A condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement.
  - A vesting condition is either
    - a service condition or
    - a performance condition.
The acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in HKFRS 3.11 of HKAS 32 Financial Instruments: Presentation.
- The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met.
- HKFRS 3.58 provides guidance on the subsequent accounting for contingent consideration. (HKFRS 3.40)

HKFRS 3.58b is amended as follows:

b. Other contingent consideration that:
   i. is within the scope of HKFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss in accordance with HKFRS 9.
   ii. is not within the scope of HKFRS 9 shall be measured at fair value at each reporting date and changes in fair value shall be recognised in profit or loss. (HKFRS 3.58b)
AI 2010-12: HKFRS 8

- HKFRS 8.22 is added with point (aa) as follows:
  - An entity shall disclose the following general information:
    a. the judgements made by management in applying the aggregation criteria in HKFRS 8.12. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics; and
    (HKFRS 8.22aa)

- HKFRS 8.28(c) is amended as follows:
  - An entity shall provide reconciliations of all of the following:
    c. the total of the reportable segments’ assets to the entity’s assets if the segment assets are reported in accordance with HKFRS 8.23.
    (HKFRS 8.28c)

AI 2010-12: HKFRS 13

- HKFRS 13.BC138A and its related heading are added.
  - Short-term receivables and payables
    - After issuing IFRS 13, the IASB was made aware that an amendment to IFRS 9 and IAS 39, which resulted in the deletion of IFRS 13.B5.4.12 and AG79 respectively, might be perceived as removing the ability to measure short-term receivables and payables with no stated interest rate at invoice amounts without discounting, when the effect of not discounting is immaterial.
    - The IASB did not intend to change the measurement requirements for those short-term receivables and payables, noting that para. 8 of IAS 8 already permits entities not to apply accounting policies set out in accordance with IFRSs when the effect of applying them is immaterial.
    (HKFRS 13.BC138A)
AI 2010-12: HKAS 16

• HKAS 16.35 is amended and HKAS 16.80A and 81H are added.
  – When an item of property, plant and equipment is revalued, the carrying amount of that asset is adjusted to the revalued amount.
  – At the date of the revaluation, the asset is treated in one of the following ways:
    a. the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.
      – For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount.
      – The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
    b. the accumulated depreciation is eliminated against the gross carrying amount of the asset. (HKAS 16.35)

AI 2010-12: HKAS 24

• HKAS 24.9 is amended and HKAS 24.17A, 18A and 28C are added
  – HKAS 24.9(b)(viii) is added to HKAS 24.9(b) as follows:
    viii. The entity, or any member of a group of which it is a part, provides key management personnel services
      – to the reporting entity or
      – to the parent of the reporting entity (HKAS 24.9(b)(viii))
AI 2010-12: HKAS 24

- HKAS 24.9 is amended and HKAS 24.17A, 18A and 28C are added
  - If an entity obtains key management personnel services from another entity (the ‘management entity’), the entity is not required to apply the requirements in HKAS 24.17 to the compensation paid or payable by the management entity to the management entity’s employees or directors. (HKAS 24.17A)
  - Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed. (HKAS 24.18A)

AI 2010-12: HKAS 38

- HKAS 38.80 is amended and HKAS 38.130H–130I are added.
  - When an item of an intangible asset is revalued, the carrying amount of that asset is adjusted to the revalued amount.
  - At the date of the revaluation, the asset is treated in one of the following ways:
    a. the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset.
      - For example, the gross carrying amount may be restated by reference to observable market data or it may be restated proportionately to the change in the carrying amount.
      - The accumulated depreciation at the date of the revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account accumulated impairment losses; or
AI 2010-12: HKAS 38

- HKAS 38.80 is amended and HKAS 38.130H–130I are added.
  - the accumulated depreciation is eliminated against the gross carrying amount of the asset.
  
The amount of the adjustment of accumulated amortisation forms part of the increase or decrease in the carrying amount that is accounted for in accordance with HKAS 38.85 and 86. (HKAS 38.80)

Annual Improvements 2011-2013 Cycle

<table>
<thead>
<tr>
<th>HKFRS Amended</th>
<th>Subject of Amendments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards</strong></td>
<td>• Meaning of ‘effective HKFRSs’</td>
</tr>
<tr>
<td><strong>HKFRS 3 Business Combinations</strong></td>
<td>• Scope exceptions for joint ventures</td>
</tr>
<tr>
<td><strong>HKFRS 13 Fair Value Measurement</strong></td>
<td>• Scope of HKAS 13.52 (portfolio exception)</td>
</tr>
<tr>
<td><strong>HKAS 40 Investment Property</strong></td>
<td>• Clarifying the interrelationship between HKFRS 3 and HKAS 40 when classifying property as investment property or owner-occupied property</td>
</tr>
</tbody>
</table>

AI 2011-13: HKFRS 1

- A footnote is added to HKFRS 1.BC11 and HKFRS 1.BC11A is added.
  - Footnote:
    - Annual Improvements Cycle 2011–2013 clarified that this paragraph does not require an entity to use a more recent version of an IFRS.
      - It only explains the advantages of applying a more recent version of an IFRS.
    - See HKFRS 11.BC11A for further details.
AI 2011-13: HKFRS 3

- HKFRS 3.2 is amended and HKFRS 3.64I is added.
  - This HKFRS applies to a transaction or other event that meets the definition of a business combination.
  - This HKFRS does not apply to:
    a. the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. (HKFRS 3.2(a))

AI 2011-13: HKFRS 13

- HKFRS 13.52 is amended and HKFRS 13.C4 is added.
  - The exception in HKFRS 13.48 applies only to financial assets, financial liabilities and other contracts within the scope of HKAS 39 Financial Instruments: Recognition and Measurement or HKFRS 9 Financial Instruments.
  - The references to financial assets and financial liabilities in HKFRS 13.48–51 and 53–56 should be read as applying to all contracts within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities in HKAS 32 Financial Instruments: Presentation. (HKFRS 13.52)
AI 2011-13: HKAS 40

• Before HKAS 40.6, a heading is added, i.e. “Classification of property as investment property or owner-occupied property”
• HKAS 40.14A is added:
  – Judgement is also needed to determine whether the acquisition of investment property is
    • the acquisition of an asset or a group of assets or
    • a business combination within the scope of HKFRS 3 Business Combinations.
  – Reference should be made to HKFRS 3 to determine whether it is a business combination.

AI 2011-13: HKAS 40

• HKAS 40.14A is added:
  – The discussion in HKAS 40.7–14 of this Standard relates
    • to whether or not property is owner-occupied property or investment property and
    • not to determining whether or not the acquisition of property is a business combination as defined in HKFRS 3.
  – Determining whether a specific transaction meets the definition of a business combination as defined in HKFRS 3 and includes an investment property as defined in this Standard requires the separate application of both Standards. (HKAS 40.14A)
Recap & Update of New CO Relevant to Financial Reporting & SME-FRS

Today’s Agenda


Adoption of SME-FRS

- The new HK Companies Ordinance (Cap. 622) (“new CO”)
  - becomes effective on 3 March 2014.
  - contains an optional reporting exemption for certain private companies and companies limited by guarantee which satisfy the conditions set out in section 359 of the new CO.

- The Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard which are effective for annual periods beginning on or after 3 March 2014 (the “SME-FRF and FRS (2014)”) 
  - are the accounting standards issued by the HKICPA that are to be followed in accordance with section 380(4) by those HK incorporated companies which are entitled to, and decide to, take advantage of this reporting exemption in the new CO (SME-FRF para. 1)
### Adoption of SME-FRS: Criteria

#### Company Qualifying Conditions

<table>
<thead>
<tr>
<th>Company</th>
<th>Qualifying Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. A private co. is a “small private co.”, or</td>
<td>➢ Size test, meeting any 2 of the following:</td>
</tr>
<tr>
<td>A private co. is the holding co. of a group of “small private companies”</td>
<td>➢ i. Revenue less than $100M,</td>
</tr>
<tr>
<td>➢ ii. Assets less than $100M,</td>
<td></td>
</tr>
<tr>
<td>➢ iii. Employee less than 100</td>
<td></td>
</tr>
<tr>
<td>B. An eligible private co., or</td>
<td>➢ Size test, meeting any 2 of the following:</td>
</tr>
<tr>
<td>An eligible private co. is the holding co. of a “group of eligible private companies”</td>
<td>➢ i. Revenue less than $200M,</td>
</tr>
<tr>
<td>➢ ii. Assets less than $200M,</td>
<td></td>
</tr>
<tr>
<td>➢ iii. Employee less than 100</td>
<td></td>
</tr>
<tr>
<td>➢ 75% members’ approval without any member objection</td>
<td></td>
</tr>
<tr>
<td>C. A “small guarantee co.”, or</td>
<td>➢ Size test, revenue less than $25M</td>
</tr>
<tr>
<td>A guarantee co. is the holding co. of a “group of small guarantee companies”</td>
<td></td>
</tr>
<tr>
<td>D. Option similar to s. 141D of Cap. 32</td>
<td>➢ S. 359(1)(b)</td>
</tr>
</tbody>
</table>

#### Shareholder Approval

- The New CO FAQ Q7 of the Companies Registry also clarifies that:
  - Sections 360(1) and (2) require a resolution passed by the members holding at least 75% of the voting rights in the company, i.e. 75% of the voting rights of all members of the company.

**Q7.** An eligible private company / holding company of a group of eligible private companies may prepare simplified reports if it meets the higher size criteria and has 75% approval from members. Does the 75% mean 75% of the voting rights of ALL members of the company OR 75% of the voting rights of those members attending a general meeting to pass a resolution for such purpose?

**Answer:** Sections 360(1) and (2) require a resolution passed by the members holding at least 75% of the voting rights in the company i.e. 75% of the voting rights of all members of the company.
Adoption of SME-FRS: Criteria

• The new CO (CAP 622), Section 2:
  - body corporate (法人團體)—
    - (a) includes—
      - (i) a company; and
      - (ii) a company incorporated outside Hong Kong; but
    - (b) excludes a corporation sole;
  - company (公司) means—
    - (a) a company formed and registered under this Ordinance; or
    - (b) an existing company;
  - existing company (原有公司) means a company formed and registered under a former Companies Ordinance
Adoption of SME-FRS: Criteria

- Is there any requirement to deliver a copy of the agreement (Section 359(1)(b)(iii)) or the resolution (Sections 360(1) and (2)) to the Registrar of Companies for registration?
  - The New CO FAQ Q8 of the Companies Registry clarifies that:
    - Yes. A company must deliver a copy of
      - an agreement made for the purposes of section 359(1)(b)(iii) or
      - a resolution passed for the purposes of section 360(1) or (2)
    to the Registrar for registration respectively within 15 days after it is made or passed pursuant to sections 622(1)(e) and (f) of the new CO.

Impact on Financial Statements

- No-par or no nominal value regime (effective on 3 March 2014)
- Terminology updated to HKFRSs
  - Financial statements, consolidated financial statements, statement of comprehensive income, statement of financial position ...
- **Section 379.** Director must prepare financial statements
  - **Section 379(1):** A company’s directors must prepare for each financial year statements that comply with sections 380 and 383.
  - **Section 379(2):** Despite subsection (1), if the company is a holding company at the end of the financial year, the directors must instead prepare for the financial year consolidated statements that comply with sections 380, 381 and 383.
Impact on Financial Statements

- **Exemptions** from preparing consolidated financial statements
  - **Section 379(3)(a):** a wholly owned subsidiary of another body corporate
  - **Section 379(3)(b):** if—
    - a partially owned subsidiary of another body corporate;
    - at least 6 months before year end, notify the members in writing of the intention not to prepare consolidated statements for that year only; and
    - 3 months before year end, no member has responded a written request for the preparation of consolidated statements for that year

Impact on Financial Statements

- **Section 379.** Director must prepare financial statements
  - **Section 379(4):** If, as respects any financial statements a copy of which is laid before a company in general meeting under section 429, or sent to a member under section 430 or otherwise circulated, published or issued by the company, a director of the company fails to take all reasonable steps to secure compliance with subsection (1) or (2), the director
    - commits an offence and
    - is liable to a fine of $300,000.
• **Section 379.** Director must prepare financial statements
  – **Section 379(5):** If, as respects any financial statements a copy of which is laid before a company in general meeting under section 429, or sent to a member under section 430 or otherwise circulated, published or issued by the company, a director of the company *wilfully* fails to take all reasonable steps to secure compliance with subsection (1) or (2), the director
    • commits an offence and
    • is liable
      – to a fine of $300,000 and
      – to imprisonment for 12 months.

• **Section 380.** General requirements for financial statements
  – Legal backing to HKFRSs (with pros and cons)
  – Lengthy list of disclosure in Tenth Schedule of the old CO (Cap. 32) fully deleted

  **Section 380. General requirements for financial statements**
  (4) The financial statements for a financial year must also comply with—
  (a) any other requirements of this Ordinance in relation to the financial statements; and
  (b) the **accounting standards** applicable to the financial statements.
Impact on Financial Statements

Q12. Notwithstanding Q10 bullet 3 above, can a holding company which is a wholly owned subsidiary of another body corporate prepare consolidated financial statements instead of company level financial statements?

Answer: The law does not require the wholly owned subsidiary to prepare company level financial statements and consolidated financial statements for the same financial year. If the holding company is a wholly owned subsidiary of another body corporate at the end of the financial year, the company is not required to prepare consolidated financial statements. However, the company may prepare consolidated statements so long as the consolidated statements comply with sections 380 and 383 and in every respect with the accounting requirements applicable to consolidated statements. In such event, the company is not required to prepare company level financial statements.

If the consolidated statements do not comply in every respect with the accounting requirements applicable to consolidated statements, then the company is required to prepare company level financial statements. In such event, any additional consolidated statements or consolidated financial information that the company chooses to prepare in respect of the full financial year will be regarded as “non statutory accounts” within the meaning of section 436 and the requirements in the new CO in relation to financial statements, for example, the auditing, laying, sending and filing of financial statements, apply to the company level financial statements and not the consolidated statements.

Source: CR website as at 12 April 2016

Impact on Financial Statements

• Q&A relating to consol. and co. level financial statements prepared under Part 9 of the new CO (dated 25.1.16 by HKICPA)
  – Topic 1 Application of section 379 – Question 1.5: Identifying the relevant accounting standards when a holding company prepares company level financial statements in accordance with section 379(3)
    • The holding company can exempt from preparation of consolidated financial statements under section 379(3), but for example, the criteria in HKFRS 10.4(a)(iv) would not be met in the following situations:
      (a) the holding co. is a wholly owned subsidiary of a private HK incorporated co. which is not required to file its financial statements on public record; or
      (b) the holding co. is a wholly owned subsidiary of a US parent which issues US GAAP financial statements but does not issue IFRS financial statements.
    » In such cases which accounting standards are the “applicable accounting standards” for the purposes of complying with s380(4)(b) of the CO if the company follows the requirements of s379(3)?
Impact on Financial Statements

• Summary of answers:
  – Section 379 determines which type of financial statements need to be prepared (company level or consolidated) and
  – Section 380 then contains the “general requirements for financial statements” being the requirements for the contents of those financial statements (company level or consolidated) as are required to be prepared under s379
  – (as a result) the company, as a holding company, shall account for investments in subsidiaries either at cost or in accordance with HKFRS 9 in its company level financial statements if the company does not elect to account for the investments using the equity method as permitted by paragraph 10(c) of HKAS 27 Separate Financial statements.
  – In addition, as the financial statements are prepared in respect of the holding company only, the disclosures required by HKFRS 12 Disclosures of Interests in Other Entities are not applicable
  – For details, please refer to original Q&A in HKICPA’s website

Impact on Financial Statements

• Disclosure of emoluments and other matters relating to directors
  – Section 383(1) requires the information prescribed by the relevant Regulation about the following items to be disclosed in the notes:
    a. the directors’ emoluments;
    b. the directors’ retirement benefits;
    c. payments made or benefit provided in respect of the termination of the service of directors (in the directors or other capacity while directors);
    d. loans, quasi-loans and other dealings in favour of (i) directors of the company and a holding company of the company; (ii) bodies corporate controlled by such directors; (iii) entities connected with such directors;
    e. material interests of directors in transactions, arrangements or contracts entered into by the company or another company in the same group of companies;
    f. consideration provided to or receivable by third parties for making available the services of a person as a director or in any other capacity while director
Impact on Financial Statements

• Disclosure of emoluments and other matters relating to directors
  – Section 383(2) requires, in subsection (1)—
    (a) a reference to a director—
      (i) in the case of subsection (1)(b) (retirement benefits, blanket added),
          includes a former director;
      (ii) in the case of subsection (1)(c) (termination payments, blanket added)
          includes a former director and shadow director; and
      (iii) in the case of subsection (1)(d) and (e) (loans and etc, blanket added),
          includes a shadow director;
    (b) a reference to a body corporate controlled by a director has the
        meaning given by section 492; and
    (c) a reference to an entity connected with a director has the meaning
        given by section 486.

Impact on Financial Statements

• Disclosure of emoluments and other matters relating to directors
  – Section 383(5) requires a person who is, or has been during the preceding
    5 years, a director or shadow director of a company must give notice to the
    company of any matter that—
    (a) is prescribed by the Regulation;
    (b) relates to the person; and
    (c) is necessary for the purposes of subsection (1).
  – Section 383(6) requires a person who contravenes subsection (5) commits
    an offence and is liable to a fine at level 5 (i.e. HK$50,000, blanket added).
Impact on Financial Statements

- Disclosure of emoluments and other matters relating to directors
  - The relevant Regulation (for section 383) is the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G)
  - In addition, section 1 of Schedule 4 to the new CO requires that the financial statements for a financial year must contain, under separate headings, the aggregate amount of any outstanding loans made under the authority of sections 280 and 281 during the financial year.
    - While directors are explicitly excluded from the scope of section 281, loans made to them for the purposes of employee share schemes may fall under the scope of section 280.
  - In the case of a holding company that has to prepare consolidated financial statements and a consolidated directors’ report, there is no requirement to make the disclosures on a consolidated basis.
    - These disclosures are limited to the directors of the holding company only.

Impact on Financial Statements

Case

Lenovo Group Limited (incorporated in HK)
Note 11a (extract) to Annual Report as at 31 March 2015

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Fees (HK$ thousand)</th>
<th>Salaries (HK$ thousand)</th>
<th>Discretionary bonuses (HK$ thousand)</th>
<th>Long-term incentives (HK$ thousand)</th>
<th>Retirement payments and employer’s contribution to pension schemes (HK$ thousand)</th>
<th>Housing allowance (HK$ thousand)</th>
<th>Other benefits-in-kind (HK$ thousand)</th>
<th>Total (HK$ thousand)</th>
</tr>
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<tbody>
<tr>
<td>Executive director</td>
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<td></td>
</tr>
<tr>
<td>Mr. Yang Yuanqing (CEO)</td>
<td>-</td>
<td>1,308</td>
<td>5,745</td>
<td>11,021</td>
<td>154</td>
<td>206</td>
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<td>Non-executive directors</td>
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<tr>
<td>Mr. Zhe Lian</td>
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<td>-</td>
<td>198</td>
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<td>Mr. Zhao John Huan</td>
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<td>-</td>
<td>198</td>
<td>281</td>
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<td>279</td>
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<tr>
<td>Independent non-executive directors</td>
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</tbody>
</table>
Impact on Financial Statements

Case

China Motor Bus Company, Limited (incorporated in HK)
Note 6a (extract) to Annual Report as at 30 June 2015

Directors' fees are set with reference to the articles of association of the company and are approved by the shareholders at Ordinary Yearly Meetings of the company.

Directors' bonus is calculated on the basis provided in the articles of association of the company.

Directors' emoluments disclosed pursuant to section 383 of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Directors' Fees</th>
<th>Salaries, allowances and benefits in kind</th>
<th>Bonus in accordance with article 155</th>
<th>Group's contributions to retirement scheme</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000's</td>
<td>$000's</td>
<td>$000's</td>
<td>$000's</td>
<td>$000's</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ngan Kiu Ling</td>
<td>125</td>
<td>2,907</td>
<td>316</td>
<td>3,348</td>
<td></td>
</tr>
<tr>
<td>Dr. Nigan Kiko Yee</td>
<td>65</td>
<td>1,471</td>
<td>123</td>
<td>1,699</td>
<td></td>
</tr>
<tr>
<td>Dr. Henry Ngan</td>
<td>65</td>
<td>600</td>
<td></td>
<td>665</td>
<td></td>
</tr>
<tr>
<td>Fritz Helfreich</td>
<td>65</td>
<td>600</td>
<td></td>
<td>665</td>
<td></td>
</tr>
<tr>
<td>Dr. Liu Ui Yung</td>
<td>60</td>
<td>-</td>
<td></td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Anthony Goh Gwee Sei</td>
<td>120</td>
<td>-</td>
<td></td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>Teo Yew Siang</td>
<td>45</td>
<td>-</td>
<td></td>
<td>45</td>
<td></td>
</tr>
<tr>
<td>Stephen Tan</td>
<td>60</td>
<td>-</td>
<td></td>
<td>60</td>
<td></td>
</tr>
<tr>
<td></td>
<td>665</td>
<td>5,578</td>
<td>440</td>
<td>6,622</td>
<td></td>
</tr>
</tbody>
</table>

Impact on Financial Statements

- Introduce Schedule 4 to the New CO (Cap. 622)
  - Part 1 (for all companies, as also relevant to and discussed in the revised SME-FRS)
  - Part 2 (for companies without Reporting Exemptions)
Impact on Financial Statements

• **Schedule 4 “Accounting Disclosures” – Part 1 “Disclosures for Companies whether or not Falling within Reporting Exemption”**

1. Aggregate amount of authorized loans
   The financial statements for a financial year must contain, under separate headings, the aggregate amount of any outstanding loans made under the authority of sections
   • 280 (i.e. exception for employee share schemes, blanket added) and
   • 281 (i.e. exception for loans to employees, blanket added) during the financial year.

2. Statement of financial position to be contained in notes to annual consolidated financial statements
   (1) The annual consolidated financial statements for a financial year—
      (a) must contain, in the notes to the statements, the holding company’s statement of financial position for the financial year; and
      (b) must include a note disclosing the movement in the holding company’s reserves.
   (2) Despite section 380(4), the holding company’s statement of financial position to be contained in the notes to the annual consolidated fin. statements for a financial year is not required to contain any notes.
   (3) That statement of financial position must be in the format in which that statement would have been prepared if the holding company had not been required to prepare any annual consolidated financial statements for the financial year.
Impact on Financial Statements

Case

China Motor Bus Company, Limited (incorporated in HK)
Note 23 (extract) to Annual Report as at 30 June 2015

China Motor Bus Company, Limited
Note 23 (extract) to Annual Report as at 30 June 2015
Impact on Financial Statements

Q14. If the company level statement of financial position of a holding company is contained in the notes to the company’s consolidated financial statements in accordance with section 2 of Part 1 of Schedule 4 to the new CO, are the holding company’s directors required to approve and sign the statement of financial position pursuant to section 387?

Answer: Yes. Section 387 of the new CO provides that the directors must approve and sign a statement of financial position that forms part of any financial statements. As section 2 of Part 1 of Schedule 4 to the new CO requires the company level statement of financial position of the holding company to be contained in the notes to the company’s consolidated financial statements, the requirements in section 387 apply to that company level statement of financial position.

Impact on Financial Statements

• **Schedule 4 “Accounting Disclosures” – Part 1 “Disclosures for Companies whether or not Falling within Reporting Exemption”**

3. Subsidiary’s financial statements must contain particulars of ultimate parent undertaking

   (1) This section applies if, at the end of a financial year, a company is the subsidiary of another undertaking.

   (2) The company’s financial statements for the financial year must contain, in the notes to the statements—

   (a) the name of the undertaking regarded by the directors as being the company’s ultimate parent undertaking; and

   (b) the following information relating to that undertaking as known to the directors—

   (i) if that undertaking is a body corporate, the country in which it is incorporated;

   (ii) if that undertaking is not a body corporate, the address of its principal place of business.
4. Compliance with applicable accounting standards

The financial statements for a financial year must state—

(a) whether they have been prepared in accordance with the applicable accounting standards within the meaning of section 380; and

(b) if they have not been so prepared, the particulars of, and the reasons for, any material departure from those standards.
**Impact on Financial Statements**

**Case**

China Motor Bus Company, Limited (incorporated in HK)

Note 5b (extract) to Annual Report as at 30 June 2015

**OPERATING PROFIT**

Operating profit is arrived at

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>$000's</td>
<td>$000's</td>
<td></td>
</tr>
</tbody>
</table>

after charging:-

(b) Other items:

Auditor’s remuneration

– audit services  3,680  3,393
– tax services    552   460
– other audit-related services  1,750  450

**Notes to financial statements**

**Example**

- **Emoluments and other matters relating to directors**
  
  **a. Directors’ emoluments**
  
  Director’s emoluments disclosed pursuant to section 383 of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015 (HK$)</th>
<th>2014 (HK$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other emoluments</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

  There were no payments made or benefit provided in respect of the termination of the service of directors, whether in the capacity of directors or in any other capacity while directors.

  A director has been provided rent-free accommodation during the year.

  The estimated money value of benefit is [HK$ ](2014: [HK$ ]).
Impact on Financial Statements

**Section 387.** Statement of financial position to be approved and signed

1. A statement of financial position that forms part of any financial statements—
   - must be approved by the directors; and
   - must be signed—
     - (i) by 2 directors on the directors’ behalf; or
     - (ii) in the case of a company having only one director, by the director.

2. Every copy of a statement of financial position that forms part of any financial statements laid before a company in general meeting under section 429, or sent to a member under section 430 or otherwise circulated, published or issued by the company, must state the name of the person who signed the statement on the directors’ behalf.

Impact on Financial Statements

**Section 387.** Statement of financial position to be approved and signed

3. If, as respects any financial statements a copy of which is circulated, published or issued by the company, subsection (1) is contravened,
   - the company, and every responsible person of the company, commit an offence, and
   - each is liable to a fine at level 4 (i.e. HK$25,000, blanket added).

4. If subsection (2) is contravened,
   - the company, and every responsible person of the company, commit an offence, and
   - each is liable to a fine at level 4 (i.e. HK$25,000, blanket added).
Impact on Directors’ Report

- **Section 391.** Directors’ report to be approved and signed

  (1) A directors’ report—
  (a) must be approved by the directors; and
  (b) must be signed on the directors’ behalf by a director or by the company secretary.

  (2) Every copy of a directors’ report laid before a company in general meeting under section 429, or sent to a member under section 430 or otherwise circulated, published or issued by the company, must state the name of the person who signed the report on the directors’ behalf.

(3) If, as respects any directors’ report a copy of which is circulated, published or issued by the company, subsection (1) is contravened,

- the company, and every responsible person of the company, commit an offence, and
- each is liable to a fine at level 4 (i.e. HK$25,000, blanket added).

(4) If subsection (2) is contravened,

- the company, and every responsible person of the company, commit an offence, and
- each is liable to a fine at level 4 (i.e. HK$25,000, blanket added).
Impact on Directors’ Report

- In addition to section 391, which sets out the requirements relating to the approval and signature of the directors’ report, the disclosure requirements for the directors’ report under the new CO (Cap. 622) are contained in the following locations:
  a. Sections 388 to 391 and 543(2)
  b. Schedule 5 “Contents of Directors' Report: Business Review” (unless exempt under section 388(3)); and
  c. Companies (Directors’ Report) Regulation (Cap. 622D)

Impact on Directors’ Report

- Changes in the directors’ report summarised as follows:
  - There are new provisions requiring the directors’ report to contain the following information –
    - a business review (discussed later);
    - equity-linked agreements entered into by the company (section 6 of Cap. 622D), if any;
    - a summary of the reasons relating to the affairs of the company given by a director who has resigned or refused to stand for re-election (section 8 of Cap. 622D) (except for companies falling within the reporting exemption), if any; and
    - permitted indemnity provision for the benefit of directors (section 470 and section 9 of Cap. 622D), if any.
Impact on Directors’ Report

• CAP 622D Companies (Directors’ Report) Regulation contains
  – Section 1 Commencement
  – Section 2 Interpretation
  – Section 3 Directors’ interests
  – Section 4 Donations
  – Section 5 Shares issued
  – Section 5A Debentures issued
  – Section 6 Equity-linked agreements
  – Section 7 Recommended dividend
  – Section 8 Reasons for resignation, etc.
  – Section 9 Permitted indemnity provision
  – Section 10 Material interests in transaction, arrangement or contract

Impact on Directors’ Report

Case

Lenovo Group Limited (incorporated in HK)
Directors’ Report as at 31 March 2015

– EQUITY-LINKED AGREEMENTS
  • No equity-linked agreements were entered into during the year, save for the share options which were outstanding under the Share Option Scheme and the Long-Term Incentive Program described in this report.
Impact on Directors’ Report

Lenovo Group Limited (incorporated in HK)
Directors’ Report as at 31 March 2015

– DIRECTORS’ INDEMNITIES AND INSURANCE

• As permitted by the articles of association of the Company, a director or a former director of the Company may be indemnified out of the Company’s assets against any liability incurred by the director to a person other than the Company or an associated company of the Company that attaches to such director in his or her capacity as a director of the Company, to the extent permitted by law.

• Such permitted indemnity provision has been in force since the adoption of the new articles of association of the Company on July 2, 2014 and is currently in force at the time of approval of this report.

• The Company has also taken out and maintained directors’ and officers’ liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its directors and officers.

Impact on Directors’ Report

• Indemnity of directors

  – A permitted indemnity provision (as defined in section 469 of the HK Companies Ordinance) for the benefit of the directors of the company is currently in force and was in force throughout the year. [KPMG (2015)]
Impact on Directors’ Report

• Changes in the directors’ report summarised as follows:
  – The amount of donations made by the company and its subsidiary undertakings which are exempted from disclosure is raised to $10,000 from $1,000 in section 129D(3)(e) of the old Companies Ordinance (Cap. 32) (“the old Ordinance”) (section 4 of Cap. 622D); and
  – The requirement under section 129D(3)(j) of the old Ordinance is modified, (refer to the following slides).

Impact on Directors’ Report

• Changes in the directors’ report summarised as follows:
  – The disclosure of information on material interests of directors in contracts of significance entered into by a company or a specified undertaking of the company is expanded to cover
    • transactions and arrangements in addition to contracts and,
    • where the company is a public company, material interests of a connected entity of a director of the company.
  – “Specified undertaking” means
    » a parent company or subsidiary undertaking of the company, or
    » a subsidiary undertaking of the company’s parent company.
Impact on Directors’ Report

• Changes in the directors’ report summarised as follows:
  – For material interests of directors in transactions, arrangements and contracts entered into by a specified undertaking of a company,
    • the information must be contained in the directors’ report of the company.
  – For transactions, arrangements and contracts entered into by the company,
    • disclosure of the information is required to be made in the notes to financial statements instead (section 383 and section 22 of Cap. 622G).
    – Disclosure of significant transactions, arrangements or contracts entered into by the company, where a director has a material interest, has been moved to the financial statements and will therefore be subject to audit.

Impact on Directors’ Report

• Changes in the directors’ report summarised as follows:
  – The names of all the directors in the group must be disclosed in a consolidated directors’ report, and the disclosure should extend to the date of approving the directors’ report.
  – For a company which is a holding company and an annual consolidated financial statements and a consolidated directors’ report are prepared under section 388(2), the consolidated directors’ report must contain the name of every person who was a director
    • of the company or
    • of the subsidiary undertakings included in the financial statements -
      (i) during the financial year; or
      (ii) during the period beginning with the end of the financial year and ending on the date of the report.
Impact on Directors’ Report

Q17. For large corporate groups with a large number of subsidiary undertakings, are there any practical measures that a holding company can adopt to comply with the requirement to disclose directors’ names on a consolidated basis in the directors’ report of the holding company under section 390(3)?

Answer: The names of directors of all subsidiary undertakings included in the annual consolidated financial statements may be disclosed on a consolidated basis, without further setting out specifically the directorship of each individual subsidiary undertaking. If the number of names of directors of all subsidiary undertakings is, in the opinion of the directors of the holding company, of excessive length, disclosure of the names of directors of subsidiary undertakings may be made by way of inclusion by reference, provided that the information on the relevant directors’ names is clearly contained in the directors’ report by making a list of such names readily available to the reader. This may include, for example, by providing a link to the relevant website (s) which contains a full list of the names.

The above does not affect the requirement to disclose the names of the directors of the holding company and other particulars required under section 390, such information must be contained fully in the directors’ report.

Impact on Directors’ Report

- Changes in the directors’ report summarised as follows:
  - Certain disclosure requirements have been dropped from the directors’ report (as moved to notes to financial statements)
  - Unless the company is exempt, a new “business review” section must be included in the directors’ report
Business Review – Exemption

• Section 388(3) sets out 3 situations under which a company is exempt from including a business review in the directors' report in compliance with Schedule 5. These are:
  a. the company falls within the reporting exemption;
  b. the company is a wholly owned subsidiary of another body corporate in the financial year; or
  c. the company is a private company that does not fall within the reporting exemption for the financial year, and a special resolution is passed by members to the effect that the company is not to prepare a business review required by that Schedule for the financial year.
• Section 388(4) requires that the resolution must be passed at least 6 months before the year end
• Section 622(2) requires the delivery of a copy of the resolution to the Companies Registrar for registration within 15 days after it is made or passed.

Business Review – Contents

• Schedule 5 “Contents of Directors’ Report: Business Review”:
  1. A directors’ report for a financial year must contain a business review that consists of—
     a. a fair review of the company’s business;
     b. a description of the principal risks and uncertainties facing the company;
     c. particulars of important events affecting the company that have occurred since the end of the financial year; and
     d. an indication of likely future development in the company’s business.
Business Review – Contents

• Schedule 5 “Contents of Directors’ Report: Business Review”:
  2. To the extent necessary for an understanding of the development, performance or position of the company’s business, a business review must include
     a. an analysis using financial key performance indicators;
        – key performance indicators (關鍵表現指標, KPIs) means factors by reference to which the development, performance or position of the company’s business can be measured effectively.
     b. a discussion on—
        i. the company’s environmental policies and performance; and
        ii. the company’s compliance with the relevant laws and regulations that have a significant impact on the company; and
     c. an account of the company’s key relationships with its employees, customers and suppliers and others that have a significant impact on the company and on which the company’s success depends.

Business Review and AG 5

• AG 5.15 Guiding Principles:
  – Business reviews prepared and presented for the purposes of compliance with Schedule 5 should be consistent with the following guiding principles:
    (a) The review should set out an analysis of the business through the eyes of the board of directors
    (b) The scope of the review should be consistent with the scope of the financial statements
    (c) The review should complement as well as supplement the financial statements, in order to enhance the overall corporate disclosure
    (d) The review should be understandable
    (e) The review should be balanced and neutral, dealing even-handedly with both good and bad aspects
AG 5.31 A fair review of the reporting entity’s business:

- In order to satisfy the minimum requirements for a fair review of the reporting entity’s business, the review should include as a minimum:
  
  (a) a description of the business and the external environment in which the reporting entity operates, as context for the directors’ discussion and analysis;
  
  (b) an analysis of the performance of the reporting entity for the year under review and the financial position of the reporting entity as at the end of that period using financial KPIs which complement or supplement the financial statements;
  
  (c) a discussion of the reporting entity’s environmental policies and performance and the reporting entity’s compliance with the relevant laws and regulations that have a significant impact on the entity; and
  
  (d) an account of the reporting entity’s key relationships with its employees, customers and suppliers and others that have a significant impact on the entity and on which the entity’s success depends.

AG 5.41 KPIs (Key Performance Indicators):

- The KPIs disclosed should be those that the directors judge are effective in measuring the delivery of their strategies and managing their business.
- Regular measurement using KPIs enables a reporting entity to set and communicate its performance targets and to measure whether it is achieving them.
• AG 5.42 KPIs (Key Performance Indicators):
  – KPIs should be presented in a way which is understandable to the user.
  – To achieve this objective it may be necessary for the business review to
    include information which:
    • explains the calculation methods;
    • discloses the source of underlying data and, where relevant, explains the
      assumptions;
    • highlights where information from the financial statements has been
      adjusted for the purposes of computing a KPI, and provides a
      reconciliation;
    • discloses corresponding amounts for the financial year immediately
      preceding the current year where available; and/or
    • identifies and explains any significant changes to the calculation method
      used to compute the KPIs compared to previous financial years, including
      significant changes in the underlying accounting policies adopted in the
      financial statements.

• AG 6.IG7: A number of economic measures exist that are commonly used by
  companies in order to assess a company’s ability to create value over time,
  and which are likely to be considered a KPI. These include the following
  example:
  – IG Example 1: Return on capital employed (ROCE)

• AG 6.IG8: In addition, directors often supplement these with other measures
  common to their industry to monitor their long term objectives around market
  positioning and progress towards stated objectives. The following examples
  are illustrated in this Implementation Guidance:
  – IG Example 2: Market share
  – IG Example 3: Average revenue per user (customer)
  – IG Example 4: Sales per square foot
  – IG Example 5: Percentage of revenue from new products
  – IG Example 6: Cost per unit sold
  – IG Example 7: Economic capital
  – IG Example 8: Cash conversion rate
• Section 436. Requirement in connection with publication of financial statements etc.

(1) This section applies if a company—

(a) circulates, publishes or issues—

(i) any specified financial statements in relation to the company; or

(ii) any non-statutory accounts in relation to the company; or

(b) otherwise makes such financial statements or accounts available for public inspection in a manner calculated to invite members of the public generally, or any class of them, to read the financial statements or accounts.

AG 6.26: Section 436’s scope is potentially a wide one.

• Section 436(5) states:

− If subsection (2), (3) or (4) is contravened, the company, and every responsible person of the company, commit an offence, and each is liable to a fine of $150,000.
CO Section 436 and AG 6

• **Specified financial statements** (指明財務報表), in relation to a company, means any financial statements prepared by the directors—
  (a) a copy of which is required by section 429(1) to be laid before the company in general meeting; or
  (b) a copy of which is required by section 430(3) to be sent to every member or is otherwise circulated, published or issued by the company.

• Section 429. Directors must lay financial statements etc. before company in general meeting
• Section 430. Company must send copies of financial statements etc. to members before general meeting

CO Section 436 and AG 6

• AG 6.18: Sections 429(1) and 430(3) in turn refer to ‘reporting documents’, which include
  – a company’s annual financial statements or,
  – if the company is a holding company, its annual consolidated financial statements.

• AG 6.19: Consequently, a company’s ‘specified financial statements’ are in effect its annual audited financial statements prepared for the statutory purpose of reporting to its members.
  – These are often referred to as ‘statutory financial statements’ and may be company-level or consolidated financial statements depending on whether or not the company prepares consolidated financial statements under section 379(2).
CO Section 436 and AG 6

Specified Financial Statements

- AG 6.20: It should also be noted that section 436 applies irrespective of whether a company is eligible for the reporting exemption under section 359.
  - Therefore a company’s ‘specified financial statements’ may have been prepared
    • under the full ‘true and fair’ reporting regime (i.e. in accordance with HKFRS issued by the HKICPA), or
    • under the simplified reporting regime (i.e. in accordance with the SME FRF and FRS (Revised 2014) issued by the HKICPA).

CO Section 436 and AG 6

Specified Financial Statements

- AG 6.29: For ‘specified financial statements’ under S.436(1)(b):
  - publicly displaying a copy of an annual report, for example, in the reception area of a company or the public area of a bank either in hard copy or ‘on-screen’ through a digital display device;
  - displaying the soft copy of the annual report on a part of the company’s website which is broadly accessible, either to the public at large or to a general group of employees;
  - including the financial statements in other publications, for example, publicity brochures;
  - in the case of a listed company,
    • making them available through the SEHK website or that of a stock exchange outside of Hong Kong; and
    • filing them on public record with the HK Companies Registry or equivalent overseas body.
CO Section 436 and AG 6

Specified Financial Statements

- Section 436(2) requires that:
  - The specified financial statements must be accompanied by the auditor’s report on those statements.

CO Section 436 and AG 6

Non-statutory accounts (非法定帳目), in relation to a company, means—
(a) any statement of financial position or statement of comprehensive income, otherwise than as part of any financial statements prepared by the directors, relating to, or purporting to deal with, a financial year of the company; or
(b) accounts in any form, otherwise than as part of any financial statements prepared by the directors, purporting to be a statement of financial position or statement of comprehensive income for a group of companies consisting of the company and its subsidiary undertakings relating to, or purporting to deal with, a financial year of the company.
• AG 6.30: Examples of ‘non-statutory accounts’ within S.436(1)(b):
  - Prospectuses, Listing Documents, or Stock Exchange Circulars (see para. 31);
  - Preliminary announcements of Results for a financial year of companies listed on the Main Board/GEM of the SEHK complying with Listing Rules 13.49(1) or GEM Rules 18.49 respectively;
  - Financial statements prepared in accordance with HKAS 3410, such as:
    • Preliminary announcements of interim results of companies listed on the Main Board/GEM of the SEHK complying with Listing Rules 13.49(6) or GEM Rules 18.78 respectively;
    • Half-yearly interim reports or summary interim reports of companies listed on the Main Board/GEM of the SEHK complying with Listing Rule 13.48(1) or GEM Rule 18.53 respectively;
    • Voluntary quarterly Financial and Business Reviews or quarterly interim reports or quarterly summary interim reports of companies listed on the Main Board of the SEHK or Quarterly reports of GEM companies complying with GEM Rule 18.66;
  - Special purpose financial statements if made publicly available;
  - Financial information published on a part of the company’s website which is broadly accessible, either to the public at large or to a general group of employees;
  - Company communication documents, such as:
    • Briefing materials provided to analysts and/or investors (including ‘road show’ materials);
    • Newspaper advertisements;
    • Press releases;
    • Company publicity brochures.
  - This list is not exhaustive.
CO Section 436 and AG 6

• AG 6.25: Accounts do not qualify as ‘non-statutory accounts’ and are outside the scope of section 436 if they only contain
  – a statement of financial position drawn up at a date that is not the company’s financial year end or
  – a statement of comprehensive income that covers only part of a company’s financial year

For example (not within Section 436):
  – if the accounts only include
    • a statement of comprehensive income dealing with just the first three months of a financial year and/or
    • a statement of financial position as at the end of that three month period,
      – then these would not be regarded as ‘non-statutory accounts’;
  – however,
    • if the accounts also include, for example as comparative information,
      • a statement of comprehensive income dealing with a full financial year,
      and/or
      • a statement of financial position as at the end of a full financial year,
      – then these accounts would be regarded as ‘non-statutory accounts’ for the purposes of section 436.
CO Section 436 and AG 6

• Section 436(3) requires that:
  – The non-statutory accounts **must be accompanied by a statement** indicating—
    (a) that those accounts are not specified financial statements in relation to the company;
    (b) whether the specified financial statements for the financial year with which those accounts purport to deal have been delivered to the Registrar;
    (c) whether an auditor’s report has been prepared on the specified financial statements for the financial year; and
    (d) whether the auditor’s report—
      (i) was qualified or otherwise modified;
      (ii) referred to any matter to which the auditor drew attention by way of emphasis without qualifying the report; or
      (iii) contained a statement under section 406(2) or 407(2) or (3).

• Section 436(4) requires that:
  – The non-statutory accounts **must not be accompanied by any auditor’s report** on the specified financial statements.
Today’s Agenda

Update of Amendments to HKFRSs
Effective after 2015 Dec. Year-end

HKFRS 9 Financial Instruments
HKFRS 9 Issued in 2014

- Effective Date
  - An entity shall apply HKFRS 9 for annual periods beginning on or after 1 January 2018.
  - Earlier application is permitted.
  - If an entity elects to apply HKFRS 9 early, it must disclose that fact and apply all of the requirements in HKFRS 9 at the same time (but see also paragraphs 7.1.2, 7.2.21 and 7.3.2).
  - It shall also, at the same time, apply the amendments in Appendix C. (para. 7.1.1)

HKFRS 9 Issued in 2014

1. Objective
2. Scope
   - Transferred from HKAS 39
3. Recognition and Derecognition
4. Classification
   - Today's update
5. Measurement
   - Debt instruments can now be measured at fair value through other comprehensive income
   - Initial measurement of trade receivable
   - New impairment requirements
6. Hedge Accounting
   - Changes mainly on hedge conditions
7. Effective Date and Transition
HKFRS 9 Issued in 2014

1. Objective
2. Scope
3. Recognition and Derecognition
4. Classification
5. Measurement
6. Hedge Accounting
7. Effective Date and Transition

Chapter 4.1 Classification of FA

- Unless para. 4.1.5 of HKFRS 9 (so-called “fair value option”) applies, an entity shall classify financial assets as subsequently measured at either
  - **amortised cost**,  
  - **fair value through other comprehensive income**, or
  - **fair value through profit or loss**

on the basis of both:

a) the entity’s **business model** for managing the financial assets; and
b) the **contractual cash flow characteristics** of the financial asset.  
(para. 4.1.1)
A financial asset shall be measured at **fair value through other comprehensive income** if both of the following conditions are met:

a. the financial asset is held within a **business model** whose objective is achieved by both
   - collecting **contractual cash flows** and selling **financial assets**, and

b. the **contractual terms** of the financial asset give rise on specified dates to cash flows that are **solely payments of principal and interest** on the principal amount outstanding.

- Para. B4.1.1–B4.1.26 provide guidance on how to apply these conditions.
  (para. 4.1.2A)
HKFRS 9 Issued in 2014

1. Objective
2. Scope
3. Recognition and Derecognition
4. Classification
5. Measurement
6. Hedge Accounting
7. Effective Date and Transition

Chapter 5 Measurement

**Initial measurement**

- Except for trade receivables within the scope of para. 5.1.3,
  - at initial recognition, an entity shall measure a financial asset or financial liability
    - at its fair value
    - plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, **transaction costs** that are directly attributable to the acquisition or issue of the financial asset or financial liability. (para. 5.1.1)

- However, if the **fair value** of the financial asset or financial liability **at initial recognition differs from the transaction price**, an entity shall apply para. B5.1.2A. (para. 5.1.1A)
Subsequent Measurement of Financial Assets

After initial recognition, an entity shall measure a financial asset in accordance with para. 4.1.1-4.1.5 at:

a. amortised cost;

b. fair value through other comprehensive income; or

c. fair value through profit or loss. (para. 5.2.1)

Amortised Cost  |  Fair Value Through Other Comprehensive income
---|---

Chapter 5 Measurement

Subsequent Measurement of Financial Assets

- An entity shall apply the impairment requirements in Section 5.5 to financial assets that are measured at amortised cost in accordance with para. 4.1.2 (i.e. under the “hold to collect” business model) and

- to financial assets that are measured at fair value through other comprehensive income in accordance with para. 4.1.2A (i.e. under the “hold to collect and sell” business model). (para. 5.2.2)

Amortised Cost  |  Fair Value Through Other Comprehensive income
---|---

Impairment requirements applied to these two categories only (implied that equity instruments are not subject to impairment requirements)

Entitle and elect to present fair value changes in other comprehensive income

Yes  |  No

Amortised Cost  |  Fair Value Through Other Comprehensive income  |  Fair Value Through Profit or Loss
Chapter 5.5 Impairment

Recognition of Expected Credit Losses – General Approach

- An entity shall recognise a loss allowance for expected credit losses on
  - a financial asset that is measured in accordance with para. 4.1.2 or 4.1.2A,
  - a lease receivable,
  - a contract asset or
  - a loan commitment and a financial guarantee contract to which the impairment requirements apply in accordance with para. 2.1(g), 4.2.1(c) or 4.2.1(d). (para. 5.5.1)

HKFRS 9 defines expected credit losses as:
- The weighted average of credit losses with the respective risks of a default occurring as the weights.

Chapter 5.5 Impairment

Recognition of Expected Credit Losses – General Approach

HKFRS 9 defines credit losses as:

The difference between
- all contractual cash flows that are due to an entity in accordance with the contract and
- all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).
Chapter 5.5 Impairment

Recognition of Expected Credit Losses – General Approach

HKFRS 9 defines credit losses as:

- An entity shall estimate cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument.
- The cash flows that are considered shall include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.
- There is a presumption that the expected life of a financial instrument can be estimated reliably.
- However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term of the financial instrument.

HKFRS 9 defines Lifetime expected credit losses as:

- The expected credit losses that result from all possible default events over the expected life of a financial instrument.

HKFRS 9 defines 12-month expected credit losses as:

- The portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Chapter 5.5 Impairment

What are the stages?

- **Stage 1**
  - Initial recognition
  - As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established.
  - This serves as a proxy for the initial expectations of credit losses.
  - For financial assets, interest revenue is calculated on the gross carrying amount (i.e., without adjustment for expected credit losses).

- **Stage 2**
  - Credit risk increases significantly
  - If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected credit losses are recognised.
  - Lifetime expected credit losses are only recognised if the credit risk increases significantly from when the entity originates or purchases the financial instrument.
  - The calculation of interest revenue on financial assets remains the same as for Stage 1.

- **Stage 3**
  - Credit impaired
  - If the credit risk of a financial asset increases to the point that it is considered credit impaired, interest revenue is calculated on the amortised cost (i.e., gross carrying amount adjusted for the loss allowance).
  - Financial assets in this stage will generally be individually assessed.
  - Lifetime expected credit losses are still recognised on these financial assets.

Increase in credit risk since initial recognition

- **Stage 1**
  - Performing
  - 12-month expected credit losses
  - Effective interest on gross carrying amount

- **Stage 2**
  - Underperforming
  - Lifetime expected credit losses
  - Effective interest on gross carrying amount

- **Stage 3**
  - Non-Performing
  - Lifetime expected credit losses
  - Effective interest on amortised cost

Adapted from the IASB's Project Summary issued in July 2014.
Chapter 5.5 Impairment

- Is the financial instrument a purchased or originated credit-impaired financial asset?
  - Yes: Calculate a credit-adjusted effective interest rate, and always recognise a loss allowance for changes in lifetime expected credit losses
  - No:
    - Is the simplified approach for trade receivables, contract assets and lease receivables applicable?
      - Yes: Is the low credit risk simplification applied?
        - Yes: Recognise 12-month expected credit losses, and calculate interest revenue on gross carrying amount
        - No: Recognise lifetime expected credit losses
      - No: Calculate interest revenue on the gross carrying amount
    - No: Has there been a significant increase in credit risk since initial recognition?
      - Yes: Is the financial instrument a credit-impaired financial asset?
        - Yes: Calculate interest revenue on amortised cost
        - No: Calculate interest revenue on the gross carrying amount
HKFRS 15 Issued in 2014

1. Identify the Contract with a Customer
2. Identify the Performance Obligations
3. Determine the Transaction Price
4. Allocate Transaction Price to Performance Obligations
5. Recognise Revenue When a Performance Obligation is Satisfied

• HKFRS 15
  – establishes a comprehensive framework for determining
    • when to recognise revenue and
    • how much revenue to recognise.
  – The core principle in that framework is
  – to depict the transfer of promised goods or services to customers
  – in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services
  – Under HKFRS 15, an entity applies a 5-step approach in recognising revenue

• Effective Date
  – An entity shall apply HKFRS 15 for annual reporting periods beginning on or after 1 January 2017 2018. (HKICPA Update No. 174)
  – Earlier application is permitted.
  – If an entity applies HKFRS 15, it shall disclose that fact.
HKFRS 15 Issued in 2014

1. Identify the Contract with a Customer
2. Identify the Performance Obligations
3. Determine the Transaction Price
4. Allocate Transaction Price to Performance Obligations
5. Recognise Revenue When a Performance Obligation is Satisfied

HKFRS 15 supersedes the following Standards:

a. HKAS 11 Construction Contracts
b. HKAS 18 Revenue
c. HK(IFRIC)-Int 13 Customer Loyalty Programmes
d. HK(IFRIC)-Int 15 Agreements for the Construction of Real Estate
e. HK(IFRIC)-Int 18 Transfers of Assets from Customers
f. HK(SIC)-Int 31 Revenue — Barter Transactions Involving Advertising Services

Contents in HKFRS 15 Issued in 2014

A. Objective
B. Scope
C. Recognition (Today’s update)
   – Identifying the contract (Step 1)
   – Identifying performance obligations (Step 2)
   – Satisfaction of performance obligations (Step 5)
D. Measurement
   – Determining the transaction price (Step 4)
   – Allocating the transaction price to performance obligations (Step 5)
E. Contract costs
F. Presentation
G. Disclosure
**Brief Summary of Changes**

<table>
<thead>
<tr>
<th>Existing Practice</th>
<th>IFRS 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using IAS 11 and 18, IFRIC Int. 13, 15, and 18, and SIC 31</td>
<td>Using IFRS 15, one standard only</td>
</tr>
<tr>
<td>Inconsistent and diversified practices</td>
<td>Single and unified 5-step revenue recognition model</td>
</tr>
<tr>
<td>Risk and reward approach in satisfying recognition</td>
<td>Control approach in satisfying the performance obligation</td>
</tr>
<tr>
<td>Limited guidance on multiple element arrangements, variable consideration, licences and etc.</td>
<td>More guidance on separating elements, allocating the transaction price, licences, and etc.</td>
</tr>
<tr>
<td></td>
<td>• New estimates and judgements required</td>
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<td></td>
<td>• New set of disclosure requirements</td>
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</tbody>
</table>

**Step 1: Identify the Contract(s)**

1. **Identify the Contract with a Customer**

   • **Step 1: Identifying the Contract(s)**
     - A contract is an agreement between two or more parties that creates enforceable rights and obligations.
     - The requirements of HKFRS 15 apply to each contract that has been agreed upon with a customer and meets specified criteria.
     - In some cases, HKFRS 15 requires an entity to combine contracts and account for them as one contract.
     - HKFRS 15 also provides requirements for the accounting for contract modifications. (HKFRS 15.IN7)
Step 1: Identify the Contract(s)

- An entity shall account for a contract with a customer that is within the scope of HKFRS 15 only when all of the following criteria (i.e. **contract criteria**) are met:
  
  a. the parties to the contract have **approved the contract** (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
  
  b. the entity can identify each party’s rights regarding the goods or services to be transferred;
  
  c. the entity can identify the payment terms for the goods or services to be transferred;
  
  d. the contract has **commercial substance** (i.e. the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract); and
  
  e. it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

  • In evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer’s ability and intention to pay that amount of consideration when it is due.
  
  • The amount of consideration to which the entity will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession (see HKFRS 15.52) (HKFRS 15.9)
Step 1: Identify the Contract(s)

Case

《壹週刊》2015年3月12日
《一剎那的財富》

• 《旺角卡門》，電影中張學友飾演的「烏蠅」有一句說話：「寧願做一日英雄，都不想做一世烏蠅！」

• 2015年3月漢能薄膜（566）股價急升，市值超過3,700億港元，漢能大股東李河君成為一剎那的華人首富！

• 2012年和2013年的應收賬週轉日數約500日和470日

• 漢能2013年的收入接近全部是來自關連公司

Can its revenue meet the contract criteria in HKFRS 15?

Step 1: Identify the Contract(s)

Case

《壹週刊》2015年7月23日
《證監會，我撐你！》

• 漢能（566）2014年收入按年增加接近兩倍，毛利率57%，溢利率34%，表現連蘋果公司也要俯首稱臣

• 漢能2014年的收入仍有六成以上是來自關連公司，為何應收帳或仍表示整年收不到錢？

• 33億港元溢利，205億港元淨資產，怎可煉成3,700億港元的市值？

• 2015年5月20日上午一小時內，漢能股價下跌了50%以上，漢能主動申請停牌

• 2015年7月15日，漢能被證監會勒令停牌

Can its revenue meet the contract criteria in HKFRS 15?
Step 2: Identify Performance Obligations

• Step 2: Identifying the Performance Obligations in the Contract
  – A contract includes promises to transfer goods or services to a customer.
  – If those goods or services are distinct, the promises
    • are performance obligations and
    • are accounted for separately
  – A good or service is distinct if
    • the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and
    • the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract. (HKFRS 15.IN7)

Step 2: Identify Performance Obligations

• At contract inception, an entity shall
  – assess the goods or services promised in a contract with a customer, and
  – identify as a performance obligation each promise to transfer to the customer either:
    a. a good or service (or a bundle of goods or services) that is distinct; or
    b. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see HKFRS 15.23) (HKFRS 15.22)

HKFRS 15 defines performance obligation as:
A promise in a contract with a customer to transfer to the customer either:
  a. a good or service (or a bundle of goods or services) that is distinct; or
  b. a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.
Step 2: Identify Performance Obligations

- A good or service that is promised to a customer is distinct if both of the following criteria are met:
  a. the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
  b. the entity’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract). (HKFRS 15.27)

Existing Practice vs HKFRS 15

<table>
<thead>
<tr>
<th>Existing Practice</th>
<th>HKFRS 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incidental Obligations and Sales Incentives (see more in Step 2)</td>
<td></td>
</tr>
<tr>
<td>• Some companies <strong>may not separately recognise revenue</strong> for the transfer to the customer of goods or services that <strong>some consider to be sales incentives or otherwise incidental or ancillary to the other promised goods or services in the contract.</strong></td>
<td>• A company will <strong>assess</strong> whether the promised goods or services arising from incidental obligations and sales incentives are goods or services that are distinct.</td>
</tr>
<tr>
<td>• That practice results in a company recognising all of the transaction price as revenue even though it has remaining performance obligations to satisfy.</td>
<td>• If the goods or services are distinct, the company will recognise revenue when (or as) each distinct good or service is transferred to the customer.</td>
</tr>
<tr>
<td>• This sometimes occurs in the <strong>automotive industry</strong> when a manufacturer sells a car along with an incentive such as maintenance that will be provided at a later date.</td>
<td></td>
</tr>
</tbody>
</table>
Existing Practice vs HKFRS 15

Resale value guarantee

• Tesla guarantees the resale value of your Model S.
• After three years, you can trade in your Model S for 70% of the original base price plus 60% of options.
• Not available to vehicles registered outside of HK.

Step 3: Determine Transaction Price

• Step 3: Determining the Transaction Prices
  – The transaction price
    • is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer
    • can be a fixed amount of customer consideration, but it may sometimes include
      – variable consideration or
      – consideration in a form other than cash
    • is also adjusted for the effects of the time value of money if the contract includes a significant financing component and for any consideration payable to the customer. (HKFRS 15.IN7)
Step 3: Determine Transaction Price

• Step 3: Determining the Transaction Prices
  - If the consideration is variable, an entity estimates the amount of consideration to which it will be entitled in exchange for the promised goods or services.
  - The estimated amount of variable consideration will be included in the transaction price
    • only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. (HKFRS 15.IN7)

Step 3: Determine Transaction Price

• The nature, timing and amount of consideration promised by a customer affect the estimate of the transaction price.
• When determining the transaction price, an entity shall consider the effects of all of the following:
  a. variable consideration (see HKFRS 15.50–55 and 59);
  b. constraining estimates of variable consideration (see HKFRS 15.56–58);
  c. the existence of a significant financing component in the contract (see HKFRS 15.60–65);
  d. non-cash consideration (see HKFRS 15.66–69); and
  e. consideration payable to a customer (see HKFRS 15.70–72). (HKFRS 15.48)
Step 3: Determine Transaction Price

An entity shall estimate an amount of variable consideration by using either of the following methods, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled:

a. The expected value — the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts.
   - An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large no. of contracts with similar characteristics.

b. The most likely amount — the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract).
   - The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (e.g. an entity either achieves a performance bonus or does not). (HKFRS 15.53)

Existing Practice vs HKFRS 15

<table>
<thead>
<tr>
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<tr>
<td>Estimates of Variable Consideration (see more in Step 3)</td>
<td></td>
</tr>
<tr>
<td>• Revenue requirements do not include detailed guidance for measuring the amount of revenue that should be recognised when the consideration is variable</td>
<td>• If the consideration promised by a customer is variable, a company will estimate it using either the expected value or the most likely amount, depending on which amount better predicts the amount of consideration to which the company will be entitled.</td>
</tr>
<tr>
<td></td>
<td>• Some or all of the estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.</td>
</tr>
</tbody>
</table>
**Existing Practice vs HKFRS 15**

<table>
<thead>
<tr>
<th>Significant Financing Components (see more on Step 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Existing Practice</strong></td>
</tr>
<tr>
<td>• If a customer pays for goods or services in advance or in arrears, some companies may not consider the effects of any financing components in the contract when determining the amount of revenue to be recognised.</td>
</tr>
<tr>
<td><strong>HKFRS 15</strong></td>
</tr>
<tr>
<td>• A company is required to consider the effects of any significant financing components in the determination of the transaction price (and thus the amount of revenue recognised).</td>
</tr>
<tr>
<td>• This may affect long-term contracts in which payment by the customer and performance by the company occur at significantly different times.</td>
</tr>
</tbody>
</table>

**Step 4: Allocate Transaction Price to PO**

- **Step 4: Allocating the Transaction Price to Performance Obligations**
  - An entity typically allocates the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract.
  - If a stand-alone selling price is not observable, an entity estimates it.
  - Sometimes, the transaction price includes a discount or a variable amount of consideration that relates entirely to a part of the contract.
  - HKFRS 15 specify when an entity allocates the discount or variable consideration to one or more, but not all, performance obligations (or distinct goods or services) in the contract. (HKFRS 15.IN7)
Step 4: Allocate Transaction Price to PO

• The objective when allocating the transaction price is
  - for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer. (HKFRS 15.73)

4. Allocate Transaction Price to Performance Obligations

• To meet the allocation objective, an entity shall allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis in accordance with HKFRS 15.76–80, except as specified in
  - HKFRS 15.81–83 (for allocating discounts) and
  - HKFRS 15.84–86 (for allocating consideration that includes variable amounts). (HKFRS 15.74)
Step 4: Allocate Transaction Price to PO

- Suitable methods for estimating SASP of a good or service include (not limited to):
  a. Adjusted market assessment approach
  b. Expected cost plus a margin approach
  c. Residual approach
  d. Combination of the above

Existing Practice vs HKFRS 15

<table>
<thead>
<tr>
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<tr>
<td>Contingent Revenue Cap (see more in Step 4)</td>
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</tr>
<tr>
<td>• Some practices for allocating the transaction price limit the amount of consideration allocated to a satisfied performance obligation to the amount that is not contingent on the satisfaction of performance obligations in the future.</td>
<td>• IFRS 15 does not permit the transaction price to be allocated to performance obligations on a basis that is consistent with the contingent revenue cap.</td>
</tr>
<tr>
<td>• That practice is commonly used to account for telecommunications contracts that bundle the sale of a mobile phone with the provision of network services for a specified period (often for one or two years).</td>
<td>• Instead, IFRS 15 requires a company to allocate the transaction price—which would be any amount that the customer pays on entering into the contract and the monthly payments for the network services—to the mobile phone and the network services on the basis of the relative stand-alone selling prices of each item.</td>
</tr>
</tbody>
</table>
## Existing Practice vs HKFRS 15

<table>
<thead>
<tr>
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<th>HKFRS 15</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Observable Selling Price (see more in Step 4)</strong></td>
<td></td>
</tr>
<tr>
<td>• For some contracts, revenue requirements preclude a company from recognising revenue on the transfer of a good or service to a customer if there is no observable evidence of the stand-alone selling prices of each of the goods or services promised in the contract.</td>
<td>• If observable prices of the promised goods or services are not available, a company would allocate the transaction price on the basis of estimated stand-alone selling prices of those goods or services.</td>
</tr>
<tr>
<td>• This often results in the deferral of revenue recognition because revenue could not be recognised when the first of the promised goods or services transfers to the customer.</td>
<td>• The company will recognise revenue as each distinct good or service is transferred to the customer.</td>
</tr>
<tr>
<td>• This regularly occurs in the software industry when observable prices are not available for upgrades and additional functionality for computer software.</td>
<td></td>
</tr>
</tbody>
</table>

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**Case**

**Resale value guarantee**

- Tesla guarantees the resale value of your Model S.
- After three years, you can trade in your Model S for 70% of the original base price plus 60% of options.
- Not available to vehicles registered outside of HK.
Step 5: Satisfy Performance Obligations

5. Recognise Revenue When a Performance Obligation is Satisfied

- **Step 5: Satisfaction of performance obligations**
  - An entity recognises revenue when (or as) it satisfies a performance obligation by transferring a promised good or service to a customer:
    - which is when the customer obtains control of that good or service.
  - The amount of revenue recognised is the amount allocated to the satisfied performance obligation. (HKFRS 15.IN7)

Step 5: Satisfy Performance Obligations

5. Recognise Revenue When a Performance Obligation is Satisfied

- **Step 5: Satisfaction of performance obligations**
  - A performance obligation may be satisfied:
    - at a point in time (typically for promises to transfer goods to a customer) or
    - over time (typically for promises to transfer services to a customer).
  - For performance obligations satisfied over time, an entity recognises revenue over time by selecting an appropriate method for measuring the entity's progress towards complete satisfaction of that performance obligation. (HKFRS 15.IN7)
Step 5: Satisfy Performance Obligations

• An entity shall recognise revenue
  – when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer.

• An asset is transferred
  – when (or as) the customer obtains control of that asset (HKFRS 15.31)

Step 5: Satisfy Performance Obligations

• For each performance obligation identified in accordance with HKFRS 15.22–30,
  – an entity shall determine at contract inception whether it
    • satisfies the performance obligation over time (in accordance with HKFRS 15.35–37) or
    • satisfies the performance obligation at a point in time (in accordance with HKFRS 15.38).
      – If an entity does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time. (HKFRS 15.32)
Step 5: Satisfy Performance Obligations

• Goods and services are assets, even if only momentarily, when they are received and used (as in the case of many services).

• **Control** of an asset
  - refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.
  - includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset.

• When evaluating whether a customer obtains control of an asset,
  - an entity shall consider any agreement to repurchase the asset (see HKFRS 15.B64–B76). (HKFRS 15.33)

Step 5: Satisfy Performance Obligations

• An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:
  a. the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs (see HKFRS 15.B3–B4);
  b. the entity’s performance creates or enhances an asset (e.g. work in progress) that the customer controls as the asset is created or enhanced (see HKFRS 15.B5); or
  c. the entity’s performance does not create an asset with an alternative use to the entity (see HKFRS 15.36) and the entity has an enforceable right to payment for performance completed to date (see HKFRS 15.37). (HKFRS 15.35)
Step 5: Satisfy Performance Obligations

Methods for Measuring Progress

- Appropriate methods of measuring progress include output methods and input methods (HKFRS 15.B14–B19 provide guidance)
- In determining the appropriate method for measuring progress, an entity shall consider the nature of the good or service that the entity promised to transfer to the customer. (HKFRS 15.41)
- When applying a method for measuring progress, an entity shall exclude from the measure of progress any goods or services for which the entity does not transfer control to a customer.
- Conversely, an entity shall include in the measure of progress any goods or services for which the entity does transfer control to a customer when satisfying that performance obligation. (HKFRS 15.42)

Over Time

Measuring Progress

Step 5: Satisfy Performance Obligations

- If a performance obligation is not satisfied over time in accordance with HKFRS 15.35–37, an entity satisfies the performance obligation at a point in time.
- To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation,
  - the entity shall consider the requirements for control in HKFRS 15.31–34. (HKFRS 15.38)

At a Point in Time

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Step 5: Satisfy Performance Obligations

- In addition, an entity shall consider **indicators of the transfer of control**, which include, but are not limited to, the following:
  a. The entity has a present right to payment for the asset
  b. The customer has legal title to the asset
  c. The entity has transferred physical possession of the asset
  d. The customer has the significant risks and rewards of ownership of the asset
  e. The customer has accepted the asset

C. Recognition and D. Measurement

1. Identify the Contract with a Customer
2. Identify the Performance Obligations
3. Determine the Transaction Price
4. Allocate Transaction Price to Performance Obligations
5. Recognise Revenue When a Performance Obligation is Satisfied

- When (or as) a performance obligation is satisfied,
  - an entity shall **recognise as revenue**
    - the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with HKFRS 15.56–58) that is **allocated to that performance obligation**. (HKFRS 15.46)
## Existing Practice vs HKFRS 15

### Timing of Revenue Recognition (see more in Step 5)

<table>
<thead>
<tr>
<th>Existing Practice</th>
<th>HKFRS 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Because of a lack of clear and comprehensive guidance, there is some diversity in practice in determining whether a company should recognise revenue for some goods or services at a point in time or over time.</td>
<td>• A company will be able to recognise revenue over time only if the criteria specified in IFRS 15 are met.</td>
</tr>
<tr>
<td>• Some companies selling residential real estate in multi-unit developments have difficulty determining whether the construction of such assets is:</td>
<td>• In all other cases, a company will recognise revenue at the point in time when the customer obtains control of the promised good or service.</td>
</tr>
<tr>
<td>- a service that is provided over time (revenue is recognised over time) or</td>
<td></td>
</tr>
<tr>
<td>- a good that is transferred to the customer when construction is complete (revenue is recognised at that point in time)</td>
<td></td>
</tr>
</tbody>
</table>

Adapted from the IASB's Project Summary issued in May 2014

### Licences

<table>
<thead>
<tr>
<th>Existing Practice</th>
<th>HKFRS 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The revenue recognition guidance on accounting for licences of intellectual property is broad.</td>
<td>• IFRS 15 provides application guidance on how to apply the revenue framework to different types of licences of intellectual property.</td>
</tr>
<tr>
<td>• Different interpretations of that guidance has led to significant diversity in the accounting for licences.</td>
<td></td>
</tr>
</tbody>
</table>
### Existing Practice vs HKFRS 15

**Disclosure**

<table>
<thead>
<tr>
<th>Existing Practice</th>
<th>HKFRS 15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure of information about revenue is inadequate and lacks cohesion with the disclosure of other items in the financial statements.</td>
<td>IFRS 15 includes a comprehensive set of disclosure requirements that require a company to disclose qualitative and quantitative information about its contracts with customers to help investors understand the nature, amount, timing and uncertainty of revenue.</td>
</tr>
<tr>
<td>For example, many investors have said that some companies present revenue in isolation, which means that investors cannot relate revenue to the company’s financial position.</td>
<td></td>
</tr>
</tbody>
</table>

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### Case

- HKFRS 15.B70 states that:
  - If an entity has an obligation to repurchase the asset *at the customer’s request* (a put option) *at a price that is lower than the original selling price of the asset*,
    - the entity shall consider at contract inception whether the customer has a significant economic incentive to exercise that right.
  - The customer’s exercising of that right results in the customer effectively paying the entity consideration for the right to use a specified asset for a period of time.
  - Therefore, if the customer has a significant economic incentive to exercise that right, the entity shall account for the agreement as a lease in accordance with IAS 17.
Introduction

• The previous accounting model for leases required lessees and lessors to
  – classify their leases as either finance leases or operating leases and
  – account for those two types of leases differently.

• That model was criticised
  – for failing to meet the needs of users of financial statements because it did
    not always provide a faithful representation of leasing transactions.
  – In particular, it did not require lessees to recognise assets and liabilities
    arising from operating leases.

• Accordingly, the IASB and the US FASB initiated a joint project to develop a new approach to lease accounting
  that requires a lessee to recognise assets and liabilities for the rights and obligations created by leases.
Introduction

• The IASB and the US FASB shared the following:
  – decided that a lessee should be required to recognise assets and liabilities for all leases (with limited exceptions)
  – defined leases in the same way
  – reached similar decisions regarding the measurement of lease liabilities, and how to account for leases that were formerly classified as finance leases
  – decided not to substantially change lessor accounting

• However, the IASB and the US FASB reached different decisions:
  – The IASB decided to adopt a single lessee accounting model whereby a lessee accounts for all leases in the same way.
  – The US FASB decided to adopt a dual lessee accounting model, classifying leases in a similar manner to the previous requirements in US GAAP for distinguishing between operating leases and capital leases, and to account for those two types of leases differently.

Introduction

• In consequence, IFRS 16 Leases was issued in January 2016

• Lessee accounting
  – IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
  – A lessee is required to recognise (initially measure on a present value basis)
    • a right-of-use asset representing its right to use the underlying leased asset and
    • a lease liability representing its obligation to make lease payments.

• Lessor accounting
  – IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and accordingly, a lessor continues
    • to classify its leases as operating leases or finance leases, and
    • to account for those two types of leases differently.
Introduction

• IFRS 16 finally issued in January 2016
• Effective Date of IFRS 16
  – An entity shall apply IFRS 16 for annual reporting periods beginning on or after 1 January 2019.
  – Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.
  – If an entity applies IFRS 16 earlier, it shall disclose that fact.

Introduction

• IFRS 16 supersedes the following Standards and Interpretations:
  (a) IAS 17 Leases;
  (b) IFRIC 4 Determining whether an Arrangement contains a Lease;
  (c) SIC-15 Operating Leases—Incentives; and
  (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.
3. Reporting Exemptions

- A lessee may elect not to apply the requirements in IFRS 16 (IFRS 16.22–49) to:
  (a) short-term leases; and
  (b) leases for which the underlying asset is of low value (as described in IFRS 16.B3–B8).

IFRS 16 defines short-term lease as:
- A lease that, at the commencement date, has a lease term of 12 months or less.
- A lease that contains a purchase option is not a short-term lease.
3. Reporting Exemptions

- **Leases for which the underlying asset is of low value**
  - A lessee shall assess the value of an underlying asset based on the value of the asset **when it is new**, regardless of the age of the asset being leased. (IFRS 16.B3)
  - The assessment of whether an underlying asset is of low value is performed on an absolute basis.
    - Leases of low-value assets qualify for the accounting treatment in IFRS 16.6 regardless of whether those leases are material to the lessee.
    - The assessment is **not affected by the size, nature or circumstances of the lessee**.
    - Accordingly, different lessees are expected to reach the same conclusions about whether a particular underlying asset is of low value. (IFRS 16.B4)

- **Leases for which the underlying asset is of low value**
  - An underlying asset can be of low value only if:
    (a) the lessee can benefit from use of the underlying asset on its own or together with other resources that are readily available to the lessee; and
    (b) the underlying asset is not highly dependent on, or highly interrelated with, other assets. (IFRS 16.B5)
3. Reporting Exemptions

- **Leases for which the underlying asset is of low value**
  - A lease of an underlying asset does not qualify as a lease of a low-value asset if the nature of the asset is such that, when new, the asset is typically not of low value.
    - For example, leases of cars would not qualify as leases of low-value assets because a new car would typically not be of low value. (IFRS 16.B6)
  - If a lessee subleases an asset, or expects to sublease an asset, the head lease does not qualify as a lease of a low-value asset. (IFRS 16.B7)
  - Examples of low-value underlying assets can include:
    - tablet and personal computers,
    - small items of office furniture and
    - telephones. (IFRS 16.B8)

---

3. Reporting Exemptions

- If a lessee accounts for short-term leases applying IFRS 16.6 (as exempted above), the lessee shall consider the lease to be a new lease for the purposes of IFRS 16 if:
  (a) there is a lease modification; or
  (b) there is any change in the lease term (for example, the lessee exercises an option not previously included in its determination of the lease term)

- The election for short-term leases shall be made by class of underlying asset to which the right of use relates.
  - A class of underlying asset is a grouping of underlying assets of a similar nature and use in an entity’s operations.

- The election for leases for which the underlying asset is of low value can be made on a lease-by-lease basis.
4. Identifying a Lease

- At inception of a contract, an entity shall assess whether the contract is, or contains, a lease.
- A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 defines inception date of a lease as:
- The earlier of
  - the date of a lease agreement
  - the date of commitment by the parties to the principal terms and conditions of the lease.

4. Identifying a Lease

IFRS 16 defines lease as:
- A contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

- IFRS 16.B9–B31 set out guidance on the assessment of whether a contract is, or contains, a lease (IFRS 16.9)
  - A period of time may be described in terms of the amount of use of an identified asset (for example, the number of production units that an item of equipment will be used to produce)
  - An entity shall reassess whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed (IFRS 16.10–11)
4. Identifying a Lease

• To assess whether a contract conveys the right to control the use of an identified asset (see IFRS 16.B13–B20) for a period of time, an entity shall assess whether, throughout the period of use, the customer has both of the following:
  (a) the right to obtain substantially all of the economic benefits from use of the identified asset (as described in IFRS 16.B21–B23); and
  (b) the right to direct the use of the identified asset (as described in IFRS 16.B24–B30) (IFRS 16.B9)

4. Identifying a Lease

• For a contract that is, or contains, a lease, an entity shall account for each lease component within the contract as a lease separately from non-lease components of the contract,
  – unless the entity applies the practical expedient in IFRS 16.15 (for lessee only, i.e. account for the non-lease component as a lease).
• IFRS 16.B32–B33 set out guidance on separating components of a contract.
4. Identifying a Lease – For a Lessee

• For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of
  – the relative stand-alone price of the lease component and
  – the aggregate stand-alone price of the non-lease components.

• The relative stand-alone price of lease and non-lease components shall be determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately.

• If an observable stand-alone price is not readily available, the lessee shall estimate the stand-alone price, maximising the use of observable information.

4. Identifying a Lease – For a Lessee

• As a practical expedient, a lessee may elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.
  – A lessee shall not apply this practical expedient to embedded derivatives that meet the criteria in para. 4.3.3 of IFRS 9 Financial Instruments. (IFRS 16.15)
4. Identifying a Lease

Is there an identified asset? (IFRS 16.B13-B20)

- Yes
  - Does the customer have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use? (IFRS 16.B21–B23)
    - Yes
      - The contract contains a lease
    - No
      - Does the customer, the supplier or neither party have the right to direct how and for what purpose the asset is used throughout the period of use? (IFRS 16.B25–B30)
        - Yes
          - The contract contains a lease
        - No
          - Did the customer design the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use? (IFRS 16.B24(b)(iii))
            - Yes
              - The contract contains a lease
            - No
              - The contract does not contain a lease
      - No
        - The contract does not contain a lease
  - No
    - Is there an identified asset? (IFRS 16.B13-B20)

Supplier

Customer

Neither; how and for what purpose the asset will be used is predetermined

Modified from IFRS 16.B31
5. Lease Term

• An entity shall determine the lease term as the non-cancellable period of a lease, together with both:
  (a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
  (b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

• In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, an entity shall consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, as described in IFRS 16.B37–B40.

5. Lease Term

• A lessee shall reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either
  – a significant event or
  – a significant change in circumstances that:
    (a) is within the control of the lessee; and
    (b) affects whether the lessee is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term (as described in IFRS 16.B41).

• An entity shall revise the lease term if there is a change in the non-cancellable period of a lease.
5. Lease Term

- For example, the non-cancellable period of a lease will change if:
  - (a) the lessee exercises an option not previously included in the entity’s determination of the lease term;
  - (b) the lessee does not exercise an option previously included in the entity’s determination of the lease term;
  - (c) an event occurs that contractually obliges the lessee to exercise an option not previously included in the entity’s determination of the lease term; or
  - (d) an event occurs that contractually prohibits the lessee from exercising an option previously included in the entity’s determination of the lease term.

6. Lessee – Recognition

- Recognition
  - At the commencement date, a lessee shall recognise
    - a right-of-use asset, and
    - a lease liability. (IFRS 16.22)

IFRS 16 defines right-of-use asset as:
- An asset that represents a lessee’s right to use an underlying asset for the lease term.
6. Lessee – Initial Measurement

- **Initial Measurement of the Right-of-Use Asset**
  - At the **commencement date**, a lessee shall **measure** the right-of-use asset at **cost**.
    (IFRS 16.23)

IFRS 16 defines **commencement date** of a lease as:
- The date on which a lessor makes an underlying asset available for use by a lessee.

- **The cost** of the right-of-use asset shall comprise:
  - (a) the amount of the initial measurement of the lease liability, as described in IFRS 16.26;
  - (b) any **lease payments made at or before the commencement date**, less any **lease incentives received**;
  - (c) any **initial direct costs** incurred by the lessee; and
  - (d) an **estimate of costs** to be incurred by the lessee in **dismantling and removing the underlying asset**, **restoring the site** on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, **unless those costs are incurred to produce inventories**.
    - The lessee incurs the obligation for those costs either
      - at the commencement date or
      - as a consequence of having used the underlying asset during a particular period. (IFRS 16.24)
6. Lessee – Initial Measurement

• **Initial Measurement of the Lease Liability**
  
  – At the commencement date, a lessee shall measure the lease liability at the **present value** of the lease payments that are not paid at that date.
  
  • The lease payments shall be discounted using the **interest rate implicit in the lease**, if that rate can be readily determined.
  
  • If that rate cannot be readily determined, the lessee shall use the lessee’s **incremental borrowing rate**. (IFRS 16.26)

6. Lessee – Initial Measurement

• At the **commencement date**, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:
  
  (a) fixed payments (including in-substance fixed payments as described in IFRS 16.842), **less any lease incentives receivable**;
  
  (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date (as described in IFRS 16.28);
  
  (c) amounts expected to be payable by the lessee under **residual value guarantees**;
  
  (d) the **exercise price of a purchase option** if the lessee is reasonably certain to exercise that option (assessed considering the factors described in IFRS 16.837–840); and
  
  (e) **payments of penalties for terminating the lease**, if the lease term reflects the lessee exercising an option to terminate the lease.
6. Lessee – Initial Measurement

Variable lease payments that depend on an index or a rate described in IFRS 16.27(b) include, for example,
- payments linked to a consumer price index,
- payments linked to a benchmark interest rate (such as LIBOR) or
- payments that vary to reflect changes in market rental rates.

Example

6. Lessee – Subsequent Measurement

Subsequent Measurement of the Right-of-Use Asset
- After the commencement date, a lessee shall measure the right-of-use asset
  - applying a cost model,
  - unless it applies either of the measurement models described in IFRS 16.34 and 35. (IFRS 16.29)
6. Lessee – Subsequent Measurement

- To apply a cost model, a lessee shall measure the right-of-use asset at cost:
  (a) less any accumulated depreciation and any accumulated impairment losses; and
  (b) adjusted for any remeasurement of the lease liability specified in IFRS 16.36(c).

6. Lessee – Subsequent Measurement

- A lessee shall apply the depreciation requirements in IAS 16 Property, Plant and Equipment in depreciating the right-of-use asset, subject to the requirements in IFRS 16.32 (as below).
  - The lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset
    - If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or
    - If the cost of the right-of-use asset reflects that the lessee will exercise a purchase option.
  - Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of
    - the end of the useful life of the right-of-use asset or
    - the end of the lease term.
6. Lessee – Subsequent Measurement

• A lessee shall apply IAS 36 *Impairment of Assets*
  – to determine whether the right-of-use asset is impaired and
  – to account for any impairment loss identified.

Right-of-Use Asset
Cost Model

6. Lessee – Subsequent Measurement

• If a lessee applies the fair value model in IAS 40 *Investment Property* to its investment property, the lessee shall also apply that *fair value model* to right-of-use assets that meet the definition of investment property in IAS 40.

• If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in IAS 16, a lessee may elect to apply that *revaluation model* to all of the right-of-use assets that relate to that class of property, plant and equipment.

Measurement Models
6. Lessee – Subsequent Measurement

- **Subsequent Measurement of the Lease Liability**
  - After the commencement date, a lessee shall measure the lease liability by:
    - (a) increasing the carrying amount to reflect interest on the lease liability;
    - (b) reducing the carrying amount to reflect the lease payments made; and
    - (c) remeasuring the carrying amount
      - to reflect any reassessment or lease modifications specified in IFRS 16.39–46, or
      - to reflect revised in-substance fixed lease payments (see IFRS 16.B42). (IFRS 16.36)

- Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

- The periodic rate of interest is the discount rate described in IFRS 16.26, or if applicable the revised discount rate described in IFRS 16.41, IFRS 16.43 or IFRS 16.45(c).

- After the commencement date, a lessee shall recognise in profit or loss, unless the costs are included in the carrying amount of another asset applying other applicable Standards, both:
  - (a) interest on the lease liability; and
  - (b) variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.
**Summary – Effect on Fin. Position**

<table>
<thead>
<tr>
<th>IAS 17</th>
<th>IFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance leases</td>
<td>Operating leases</td>
</tr>
<tr>
<td>Assets</td>
<td>![Symbol]</td>
</tr>
<tr>
<td>Liabilities</td>
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<tr>
<td>Off balance sheet rights / obligations</td>
<td>---</td>
</tr>
</tbody>
</table>

**Summary – Effect on Profit or Loss**

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<tr>
<td>Finance leases</td>
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<tr>
<td>Revenue</td>
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<tr>
<td>Operating costs (excluding depreciation and amortisation)</td>
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<tr>
<td>EBITDA</td>
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<tr>
<td>Depreciation and amortisation</td>
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<td>Finance costs</td>
<td>Interest</td>
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<td>Profit before tax</td>
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