



International GAAP Holdings Limited

Model financial statements for the year ended
31 December 2017
(With early adoption of IFRS 15)

Appendix 2: Early application of IFRS 15

Revenue from Contracts with Customers

Introduction

This Appendix has been produced to complement the International GAAP Holdings Limited Model financial statements for the year ended 31 December 2017 ('the 2017 Disclosures'). It focuses on the disclosure requirements in IFRS 15 *Revenue from Contracts with Customers* which are effective for annual periods beginning on or after 1 January 2018. It does not illustrate all the disclosures specified in IFRS 15, which will depend on an entity's underlying facts and circumstances.

Background to IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue Standards and Interpretations upon its effective date:

- IAS 18 *Revenue*;
- IAS 11 *Construction Contracts*;
- IFRIC 13 *Customer Loyalty Programmes*;
- IFRIC 15 *Agreements for the Construction of Real Estate*;
- IFRIC 18 *Transfers of Assets from Customers*; and
- SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

As suggested by the title of the new Revenue Standard, IFRS 15 only covers revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are not within the scope of IFRS 15. Instead, they are within the scope of IFRS 9 (or IAS 39 if IFRS 15 is adopted earlier than IFRS 9).

As mentioned above, the new Revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognise revenue 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.

The new Revenue Standard introduces a 5 – step approach to revenue recognition and measurement:



Far more prescriptive guidance has been introduced by the new Revenue Standard in respect of:

- Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.
- Whether the transaction price allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for 'sales of goods' and 'provision of services'; rather, the new Standard requires entities to assess whether revenue should be recognised over time or at a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services'.

- When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, 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.
- When costs incurred to obtain a contract and costs to fulfil a contract can be recognised as an asset.

Extensive disclosures are also required by the new Standard.

In April 2016, the IASB issued *Clarifications to IFRS 15* in response to feedback received by the IASB|FASB Joint Transition Resource Group for Revenue Recognition, which was formed to address potential issues associated with the implementation of IFRS 15 and the US GAAP equivalent, ASC topic 606. *Clarifications to IFRS 15* clarified the following areas:

- Identifying performance obligations: by providing illustrative factors for consideration in assessing whether promised goods or services are distinct;
- Principal versus agent considerations: by clarifying that an entity should assess whether it is a principal or agent for each distinct good or service promised to the customer, and by amending and reframing the indicators to assess whether an entity is a principal or an agent; and
- Licensing application guidance: in determining whether the licence grants customers a right to use the underlying intellectual property ('IP') (which would result in transfer of control at a point in time) or a right to access the IP (which would result in transfer of control over time), an entity is required to determine whether (i) its ongoing activities are expected to significantly change the form or the functionality of the IP and (ii) the ability of the customer to obtain benefit from the IP is substantially derived from or dependent upon those activities.

Many entities across different industries will likely be affected by IFRS 15 (at least to a certain extent). In some cases, the changes may be substantial and may require changes to the existing IT systems and internal controls. Entities should consider the nature and extent of these changes.

For additional information, please refer to the Deloitte publications *IFRS in Focus* and *IFRS Industry Insights* which highlight the practical implications of IFRS 15 for various industries. These publications can be downloaded at <https://www.iasplus.com/en/tag-types/global>. More information regarding *Clarifications to IFRS 15* can be found in the Deloitte *IFRS in Focus* publication at <https://www.iasplus.com/en/publications/global/ifrs-in-focus/2016/ifrs-15-clarifications>.

IFRS 15, together with the clarifications thereto issued in April 2016, is effective for reporting periods beginning on or after 1 January 2018 with early application permitted. Entities can choose to apply the Standard fully retrospectively or to use a modified transition approach, which involves not restating periods prior to the date of initial application (for example, 1 January 2018 for an entity with a 31 December year end). *Clarifications to IFRS 15* also introduces additional practical expedients for entities transitioning to IFRS 15 on (i) contract modifications that occurred prior to the beginning of the earliest period presented and (ii) contracts that were completed at the beginning of the earliest period presented.

Key assumptions used in the preparation of this Appendix

- International GAAP Holdings Limited is assumed to have adopted IFRS 15 as amended in April 2016 as of 1 January 2017 (its date of initial application of IFRS 15, in accordance with IFRS 15.C2(a))
- International GAAP Holdings Limited is assumed not to have early adopted IFRS 9 *Financial Instruments*, IFRS 16 *Leases* or any other standards or amendments for which the effective date is post January 2017.
- International GAAP Holdings Limited has chosen a full retrospective application of IFRS 15 in accordance with IFRS.15.C3(a) without using the practical expedients for completed contracts in IFRS 15.C5(a) and (b) or for modified contracts in IFRS 15.C5(c) but using the expedient in IFRS 15.C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2017.
- It is assumed that the adoption of IFRS 15 does not have an impact on the tax laws applicable to the Group (i.e. it does not have an impact on current tax).

- This Appendix does not include a full set of financial statements; only the statement of financial position, statement of profit or loss and other comprehensive income, and the notes that are affected by the application of IFRS 15 which are relevant to International GAAP Holdings Limited, a non-financial institution, are included. Notes which have been affected by the change in the profit for the year, e.g. Note 10 Income taxes relating to continuing operations, Note 14 Earnings per share and Note 30 Retained earnings and dividends on equity instruments have not been illustrated in this Appendix but entities should consider the effect of adjustments resulting from adoption of IFRS 15 on these, and indeed all, notes in the financial statements.
- The financial statement extracts included in this Appendix include various amendments as a result of IFRS 15 which are immaterial to users of the financial statements. In practice entities may not want to restate for such amendments. However, they are included in this Appendix in order to illustrate how such amendments would be presented and also to highlight the potential impact on the financial statements of application of IFRS 15. The impact of IFRS 15 on International GAAP Holdings is outlined in the table directly below.

General note

Relatively few entities have adopted IFRS 15 in advance of its effective date and discussions about the application of IFRS 15 are ongoing. Market practice has yet to be developed and will no doubt evolve over time. Depending on the specific facts and circumstances of each entity, the nature and extent of the disclosures will vary from those presented in this Appendix, which were created based on a set of presumed facts applicable to International GAAP Holdings Limited for illustrative purposes.

The Group's material revenue streams should be listed, together with consideration of whether the impact of adopting IFRS 15 is expected to be material to the financial statements and whether the Group intends to use the fully retrospective approach or the modified approach for transition to IFRS 15. Some of the areas, but not an exhaustive list, where the adoption of IFRS 15 is expected to impact the recognition of revenue are as follows:

- the extent to which distinct goods or services supplied should be accounted for separately, or else combined as a single performance obligation;
- whether an entity can apply the portfolio approach to groups of contracts;
- the impact of new guidance where pricing mechanisms include variable consideration;
- the appropriate accounting for customer options to acquire additional goods or services at a discount (a 'material right');
- accounting for contract modifications;
- when to recognise upfront fees as revenue;
- adjusting revenue for the time value of money ('significant financing component');
- the type of warranty coverage offered to customers;
- the types of licences sold; and
- whether costs of obtaining a contract, or fulfilling a contract, should be capitalised.

Commentary:

As a result of the adoption of IFRS 15, the disclosures required under IAS 11 Construction Contracts included in Note 27 Amounts due from (to) customers under construction costs in the 2017 Disclosures are no longer required. The balance previously included as an amount due from customers in Note 27 has been reclassified as a contract asset and Note 27 now contains the disclosures around contract asset balances that are required by IFRS 15. The previous balance 'amount due to customers' has been reclassified as a contract liability balance within a new contract liability note, Note 41. A refund liability balance has been recognised separately and included in Note 42.

Note 28 Contract costs has also been added to disclose costs to obtain construction contracts that meet the criteria for capitalisation in IFRS 15, and which were previously expensed.

Statement of financial position line items

IFRS 15.105 states that when either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. Any unconditional rights to consideration (i.e. amounts that relate to completed performance obligations for which payment is due under the contract) should be presented separately as a receivable.

IFRS 15.116(a) requires disclosure of the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed. Whether these balances are disclosed separately on the face of the financial statements will be a materiality judgement to be made by individual entities based on their own facts and circumstances. They are disclosed separately in this Appendix for illustrative purposes (ignoring the size of the balances involved).

A refund asset relating to customers' right to return products has been disclosed as a separate line item, 'Right to returned goods asset'. In many cases entities may conclude that it is not necessary to present this balance separately from inventories. In such a case, separate disclosure of this balance should be made in the notes to the financial statements.

Source	International GAAP Holdings Limited			
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017				
	Notes	Year ended 31/12/17	Year ended 31/12/16	
		CU'000	Restated CU'000	
Continuing operations				
IFRS 15.2 FRS 15.113(a) IAS 1.82(a)	Revenue			
		5	141,052	151,583
	Cost of sales		(87,737)	(91,560)
	Gross profit		53,315	60,023
	Investment income		3,633	2,396
	Other gains and losses		647	1,005
	Distribution expenses		(5,118)	(4,640)
	Marketing expenses		(3,278)	(2,234)
	Administration expenses		(13,376)	(17,514)
	Other expenses		(2,801)	(2,612)
	Finance costs		(4,420)	(6,025)
	Share of profit of associates		866	1,209
	Share of profit of a joint venture		337	242
	Gain recognised on disposal of interest in former associate		581	–
	Others [describe]		–	–
Profit before tax		30,386	31,850	
Income tax expense		(11,505)	(11,546)	
Profit for the year from continuing operations		18,881	20,304	
Discontinued operations				
Profit for the year from discontinued operations		8,310	9,995	
PROFIT FOR THE YEAR		27,191	30,299	
Other comprehensive income, net of income tax				
Items that will not be reclassified subsequently to profit or loss:				
Gain on revaluation of property		1,150	–	
Share of other comprehensive income of associates		–	–	
Remeasurement of defined benefit obligation		564	134	
Others (please specify)		–	–	
		1,714	134	

Source

International GAAP Holdings Limited

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	Notes	Year ended 31/12/17	Year ended 31/12/16 Restated
		CU'000	CU'000
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(39)	85
Net fair value gain on available – for – sale financial assets		66	57
Net fair value gain on hedging instruments entered into for cash flow hedges		39	20
Others (please specify)		–	–
		66	162
Other comprehensive income for the year, net of income tax		1,780	296
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		28,971	30,595
Profit for the year attributable to:			
Owners of the Company		22,799	27,072
Non – controlling interests		4,392	3,227
		27,191	30,299
Total comprehensive income for the year attributable to:			
Owners of the Company		24,579	27,368
Non – controlling interests		4,392	3,227
		28,971	30,595
Earnings per share			
From continuing and discontinued operations			
Basic (cents per share)		130.1	133.9
Diluted (cents per share)		113.7	127.7
From continuing operations			
Basic (cents per share)		82.4	84.3
Diluted (cents per share)		72.2	80.4

Commentary:

IAS 1 permits an entity to present profit or loss and other comprehensive income (OCI) in either a single statement or in two separate but consecutive statements. The above illustrates the presentation of profit or loss and OCI in one statement with expenses analysed by function.

The comparative information presented has been labelled as 'restated' to highlight to users of the financial statements that the comparative information is not the same as the information previously presented in the prior year's financial statements.

Source		International GAAP Holdings Limited			
		Consolidated statement of financial position at 31 December 2017			
		Notes	31/12/17	31/12/16 Restated	01/01/16 Restated
			CU'000	CU'000	CU'000
Assets					
<i>Non-current assets</i>					
	Property, plant and equipment		105,215	130,541	157,212
	Investment property		4,968	4,941	4,500
	Goodwill		20,485	24,260	24,120
	Other intangible assets		9,739	11,325	12,523
	Investments in associates		5,402	5,590	4,406
	Investment in a joint venture		3,999	3,662	3,420
	Deferred tax assets		2,083	1,964	1,843
	Finance lease receivables		830	717	739
	Other financial assets		10,771	9,655	7,850
	Total non-current assets		163,492	192,655	216,613
<i>Current assets</i>					
	Inventories		27,673	25,132	25,928
IFRS 15.116(a)	Trade and other receivables	25	15,455	9,950	9,146
IFRS 15.105	Finance lease receivables		198	188	182
IFRS 15.116(a)	Contract assets	27	3,654	4,024	4,259
IFRS 15.105	Contract costs	28	103	99	84
IFRS 15.91	Other financial assets		8,757	6,949	5,528
	Current tax assets		125	60	81
IFRS 15.B21	Right to returned goods asset	23	646	699	629
	Cash and bank balances		24,096	20,278	8,052
			80,707	67,379	53,889
	Assets classified as held for sale		22,336	–	–
	Total current assets		103,043	67,379	53,889
	Total assets		266,535	260,034	270,502

Commentary:

IAS 1.40A requires an entity to present a statement of financial position as at the beginning of the preceding period (third statement of financial position) if:

- (a) it applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements or reclassifies items in its financial statements; and
- (b) the retrospective application, retrospective restatement or the reclassification has a material effect on the information in the third statement of financial position.

Source	International GAAP Holdings Limited				
	Consolidated statement of financial position at 31 December 2017 – continued				
	Notes	31/12/17	31/12/16 Restated	01/01/16 Restated	
		CU'000	CU'000	CU'000	
	Equity and liabilities				
	Capital and reserves				
		Issued capital and share premium	32,439	48,672	48,672
		Other reserves	4,237	2,226	1,726
		Retained earnings	105,111	88,901	68,174
			141,787	139,799	118,572
		Amounts recognised directly in equity relating to assets classified as held for sale	–	–	–
		Equity attributable to owners of the Company	141,787	139,799	118,572
		Non – controlling interests	26,761	22,058	18,831
		Total equity	168,548	161,857	137,403
		Non – current liabilities			
		Borrowings	13,560	25,886	22,072
		Other financial liabilities	15,001	–	–
		Retirement benefit obligation	1,954	1,482	2,194
		Deferred tax liabilities	4,026	2,448	2,023
		Provisions	2,294	2,231	4,102
IFRS 15.116(a)		Contract liabilities	3,925	3,998	3,653
IFRS 15.105	41	Deferred revenue	–	140	–
		Other liabilities	180	270	–
		Total non – current liabilities	40,940	36,455	34,044

Source		International GAAP Holdings Limited			
		Consolidated statement of financial position at 31 December 2017 – continued			
		Notes	31/12/17	31/12/16 Restated	01/01/16 Restated
			CU'000	CU'000	CU'000
<i>Current liabilities</i>					
	Trade and other payables		15,659	20,422	51,957
	Borrowings		22,446	25,600	33,618
	Other financial liabilities		116	18	–
	Current tax liabilities		5,328	5,927	4,990
	Provisions		3,356	3,195	2,235
IFRS 15.116(a)	Contract liabilities	41	5,235	5,140	5,084
IFRS 15.105	Refund liability	42	993	1,075	1,171
IFRS 15.B21	Deferred revenue		140	250	–
	Other liabilities		90	95	–
			<u>53,363</u>	<u>61,722</u>	<u>99,055</u>
	Liabilities directly associated with assets classified as held for sale		<u>3,684</u>	<u>–</u>	<u>–</u>
	Total current liabilities		<u>57,047</u>	<u>61,722</u>	<u>99,055</u>
	Total liabilities		<u>97,987</u>	<u>98,177</u>	<u>133,099</u>
	Total equity and liabilities		<u>266,535</u>	<u>260,034</u>	<u>270,502</u>

Source International GAAP Holdings Ltd

**Notes to the consolidated financial statements
for the year ended 31 December 2017**

Commentary:

In this Appendix a statement of changes in equity (SOCIE) and statement of cash flows has not been illustrated due the limited impact on the balances included in these statements from the adoption of IFRS 15.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

Commentary:

The note below discloses the impact of the application of IFRS 15 only. Regarding the impact of other new and revised Standards, please refer to Section 2 of the Model Financial Statements for the year ended 31 December 2017.

IFRS 15 is a complex Standard, introducing far more prescriptive requirements than were previously included in IFRSs, and it may result in substantial changes to revenue recognition policies for some entities. It requires the application of significant judgement in some areas, but in other areas it is relatively prescriptive, allowing little room for judgement.

Whereas IAS 11 provided specific requirements for accounting for construction contracts, such contracts are accounted for in accordance with the general principles of IFRS 15.

The recognition of interest revenue and dividend income is not within the scope of IFRS 15. These matters are now dealt with under IFRS 9 (or, for entities that have not yet adopted IFRS 9, IAS 39).

New and revised IFRSs affecting the reported financial performance and/or financial position

Impact of application of IFRS 15 Revenue from Contracts with Customers

Commentary

Because of the accounting policies used by the Group under IAS 18, IAS 11 and their related Interpretations, the application of IFRS 15 did not result in significant changes in accounting policies for the Group. The changes below reflects the application of IFRS 15 to transactions not previously considered material. These would generally not be expected to be presented as changes resulting from the initial application of IFRS 15.

Nevertheless, the following note is presented as an illustration of the nature of the information that would be disclosed by an entity that is significantly affected by the adoption of IFRS 15.

Source

International GAAP Holdings Ltd

**Notes to the consolidated financial statements
for the year ended 31 December 2017**

In the current year, the Group has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) in advance of its effective date. IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15.C5(a), and (b), or for modified contracts in IFRS 15.C5(c) but using the expedient in IFRS 15.C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2017.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in IFRS 15 to describe such balances.

The Group's accounting policies for its revenue streams are disclosed in detail in Note 3.9 below. Apart from providing more extensive disclosures on the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. The amount of adjustment for each financial statement line item affected by the application of IFRS 15 for the current and prior years is illustrated below.

IAS 8.28(f)(i)

Impact on profit or loss

Year ended
31/12/16
CU'000

Impact on profit (loss) for the year

Revenue

Increase due to change in the timing of recognition for internet sales (1) 14

(Decrease) due to change in the timing of recognition for maintenance services (2) (602)

Increase due to expected returns (3) 96

Cost of sales

(Decrease) due to expected returned goods (3) (70)

(Decrease) due capitalisation of the costs to obtain construction costs (4) (15)

(Decrease) in income tax expense (5) (122)

(Decrease) in profit for the year (285)

(Decrease) in earnings per share from continuing and discontinued operations

Basic (1.5)

Diluted (1.3)

(Decrease) in earnings per share from continuing operations

Basic (1.4)

Diluted (1.3)

Source	International GAAP Holdings Ltd
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**Notes to the consolidated financial statements
for the year ended 31 December 2017**

IAS 8.28(f)(i)

**Impact on assets, liabilities and equity
as at 1 January 2016**

	As previously reported CU'000	IFRS 15 adjustments CU'000	As restated CU'000
Trade and other receivables (6), (8)	12,708	(3,562)	9,146
Contract assets (6)	–	4,259	4,259
Contract costs (4)	–	84	84
Amounts due from customers under construction contracts (8)	697	(697)	–
Right to returned goods asset (3)	–	629	629
Deferred tax liabilities (5)	4,677	(2,654)	2,023
Contract liabilities (non – current) (2)	–	3,653	3,653
Deferred revenue (non – current) (7)	41	(41)	–
Amounts due to customers under construction contracts (8)	245	(245)	–
Contract liabilities (current) (1), (2), (7), (8)	–	5,084	5,084
Refund liability (3)	–	1,171	1,171
Deferred revenue (current) (7)	63	(63)	–
Retained earnings	74,366	(6,192)	68,174

IAS 8.28(f)(i)

**Impact on assets, liabilities and equity
as at 31 December 2016**

	As previously reported CU'000	IFRS 15 adjustments CU'000	As restated CU'000
Trade and other receivables (6)	13,744	(3,794)	9,950
Amounts due from customers under construction contracts	230	(230)	–
Contract assets (6)	–	4,024	4,024
Contract costs (4)	–	99	99
Right to returned goods asset (3)	–	699	699
Deferred tax liabilities (5)	5,224	(2,776)	2,448
Contract liabilities (non – current) (2)	–	3,998	3,998
Deferred revenue (non – current) (7)	165	(25)	140
Contract liabilities (current) (1), (2), (8)	–	5,140	5,140
Amounts due to customers under construction contracts	15	(15)	–
Refund liability (3)	–	1,075	1,075
Deferred revenue (current) (7)	372	(122)	250
Retained earnings	95,378	(6,477)	88,901

Source

International GAAP Holdings Ltd

**Notes to the consolidated financial statements
for the year ended 31 December 2017****Commentary**

Notwithstanding the requirements of IAS 8.28, IFRS 15.C4 permits an entity that applies IFRS 15 retrospectively to present only the quantitative information required by IAS 8.28(f) for the annual period immediately preceding the first annual period for which this Standard is applied.

- (1) For internet sales of electronic equipment there is a timing difference between payment for the goods and when control of the goods passes to the customer on delivery. An adjustment to revenue has therefore been made to reflect the change in accounting. A contract liability has also been recognised for this amount. Previously no amounts were deferred as the impact was not considered to be material.
- (2) The amounts allocated to the maintenance service for electronic equipment increased as a result of the allocation method required under IFRS 15 (i.e. an allocation based on stand-alone selling price). Such services are paid up-front as part of the initial sales transaction whereas revenue is recognised proportionally over the three-year period over which maintenance services are provided to the customer. Based on the previous allocation method, no amounts were deferred as the impact was not considered to be material. There has been an adjustment to revenue and the recognition of a contract liability to reflect the change in accounting.
- (3) Under the Group's standard contract terms for the sale of leisure goods and electronic equipment, customers have a right of return within 30 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product from customers when they exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. No adjustments were previously made for this in the Group's financial statements, as the impact was not considered to be material.
- (4) The Group incurs incremental commission fees paid to intermediaries in connection with obtaining residential property sales contracts. When the Group expects that these incremental costs will be recovered, it capitalises these and amortises them over the period during which the residential property is transferred to the customer. These amounts were previously expensed as incurred.
- (5) To recognise the impact on deferred income tax of the other adjustments recognised.
- (6) The installation process for software services takes an average of six months to complete and the company is not entitled to bill the customer until the process is complete. Under IFRS 15, revenue recognised prior to the date on which it is invoiced to the customer is recognised as a contract asset. This balance was previously recognised as part of Trade receivables (amounts due from customers under construction contracts) and so has been reclassified. There was no impact on the statement of profit or loss as a result of these reclassifications.
- (7) The adjustment to deferred revenue relates to the reclassification of a balance that was previously recognised as part of deferred revenue and that has been reclassified as a contract liability. This balance relates to the Group's Maxi-Points scheme. This had no impact on the statement of profit or loss. The remaining deferred revenue balance relates to an amount recognised for a government grant.
- (8) The contract asset (liability) balance also includes an amount reclassified from amounts due from (to) customers under construction contracts. This had no impact on the statement of profit or loss.

3. Significant accounting policies**3.9 Revenue recognition**

The Group recognises revenue from the following major sources:

- Sale of leisure goods and electronic equipment, including the related loyalty programme 'Maxi – Points Scheme' as disclosed in note 41, maintenance included in the price of products sold, as well as warranties granted under local legislation as disclosed in note 35;
- Installation of computer software for specialised business applications; and
- Construction of residential properties.

Source	International GAAP Holdings Ltd
	Notes to the consolidated financial statements for the year ended 31 December 2017
IFRS 15.31 IFRS 15.46 IFRS 15.47 IFRS 15.119	Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer.
	<u>3.9.1 Sale of goods – leisure goods</u>
IFRS 15.B30 IFRS 15.119(e)	The Group sells sport shoes, sport equipment and outdoor play equipment both to the wholesale market and directly to customers through its own retail outlets. Sales-related warranties associated with leisure goods cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> consistent with its previous accounting treatment (see Note 35).
IFRS 15.125	For sales of leisure goods to the wholesale market, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the wholesaler's specific location (delivery). Following delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when onselling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognised by the Group when the goods are delivered to the wholesaler as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.
IFRS 15.108	
IFRS 15.125	For sales of goods to retail customers, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail outlet. Payment of the transaction price is due immediately at the point the customer purchases the goods.
IFRS 15.55, IFRS 15.B21 IFRS 15.119(d) IFRS 15.126 (b), (d)	Under the Group's standard contract terms, customers have a right of return within 30 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. It is considered highly probable that a significant reversal in the cumulative revenue recognised will not occur given the consistent level of returns over previous years.
	<u>3.9.2 Sale of goods – electronic equipment</u>
	The Group sells electronic equipment to the wholesale market and directly to customers both through its own retail outlets and through internet sales.
IFRS 15.125 IFRS 15.55, IFRS 15.B21 IFRS 15.119(d)	For sales of electronic equipment to the wholesale market and through retail outlets and internet sales, revenue is recognised by the Group at a point in time in line with the policy outlined above for the sale of leisure goods. For sales to retail customers (from both retail outlet and internet sales) there exists the same 30-day right of return and accordingly a refund liability and a right to the returned goods are recognised in relation to electronic equipment expected to be returned.
IFRS 15.125 IFRS 15.106 IFRS 15.117	For internet sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. Delivery occurs when the goods have been shipped to the customer's specific location. When the customer initially purchases the goods online the transaction price received by the Group is recognised as a contract liability until the goods have been delivered to the customer.
	<u>3.9.3 Sale of goods – 'Maxi-Points' customer loyalty programme</u>
IFRS 15.B39, IFRS 15.B40	The Group operates a 'Maxi-Points' loyalty programme through which retail customers accumulate points on purchases of leisure goods and electronic equipment that entitle them to discounts on future purchases. These points provide a discount to customers that they would not receive without purchasing the leisure goods or electronic equipment. The promise to provide the discount to the customer is therefore a separate performance obligation.

Source	International GAAP Holdings Ltd
	Notes to the consolidated financial statements for the year ended 31 December 2017
IFRS 15.74 IFRS 15.B42 IFRS 15.106 IFRS 15.117	<p>The transaction price is allocated between the product, the maintenance services (if the product is electronic equipment, as described below) and the points on a relative stand-alone selling price basis. The stand-alone selling price per point is estimated based on the discount to be given when the points are redeemed by the customer and the likelihood of redemption, as evidenced by the Group's historical experience. A contract liability is recognised for revenue relating to the loyalty points at the time of the initial sales transaction. Revenue from the loyalty points is recognised when the points are redeemed by the customer. Revenue for points that are not expected to be redeemed is recognised in proportion to the pattern of rights exercised by customers.</p>
	3.9.4 Sale of services – maintenance relating to electronic equipment
	<p>Included in the transaction price for the sale of electronic equipment is an after-sales service. This service relates to maintenance work that may be required to be carried out on the equipment for a three-year period after sale. This period can then be extended if the customer requires additional years of maintenance services. The renewal of services after the three-year period will be for the price at which these are sold by the entity to all of its customers as at the date of renewal regardless of the existence of a renewal option. Consequently, the option to extend the renewal period does not provide customers with any advantage when they enter into the initial contract and therefore no revenue has been deferred relating to this renewal option.</p>
IFRS 15.B29 IFRS 15.74 IFRS 15.81, IFRS 15.126 (c) IFRS 15.123(a) IFRS 15.35 (b), IFRS 15.124 IFRS 15.106 IFRS 15.117	<p>The maintenance service is considered to be a distinct service as it is both regularly supplied by the Group to other customers on a stand-alone basis and is available for customers from other providers in the market. A portion of the transaction price is therefore allocated to the maintenance services based on the stand-alone selling price of those services. Discounts are not considered as they are only given in rare circumstances and are never material.</p> <p>Revenue relating to the maintenance services is recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is released on a straight line basis over the period of service (i.e. three years when the services are purchased together with the underlying equipment).</p>
	3.9.5 Sale of services – installation of software services
IFRS 15.35(b) IFRS 15.124 IFRS 15.107 IFRS 15.117	<p>The Group provides a service of installation of various software products for specialised business operations. Such services are recognised as a performance obligation satisfied over time. Revenue is recognised for these installation services based on the stage of completion of the contract. The directors have assessed that the stage of completion determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period is an appropriate measure of progress towards complete satisfaction of these performance obligations under IFRS 15. Payment for installation of software services is not due from the customer until the installation services are complete and therefore a contract asset is recognised over the period in which the installation services are performed representing the entity's right to consideration for the services performed to date. This balance was previously recognised as part of trade receivables.</p>
	3.9.6 Construction of residential properties
IFRS 15.35(c) IFRS 15.117 IFRS 15.106	<p>The Group constructs and sells residential properties under long-term contracts with customers. Such contracts are entered into before construction of the residential properties begins. Under the terms of the contracts, the Group is contractually restricted from redirecting the properties to another customer and has an enforceable right to payment for work done. Revenue from construction of residential properties is therefore recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.</p> <p>The Group becomes entitled to invoice customers for construction of residential properties based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work signed by a third party assessor and an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is always less than one year.</p>

Source

International GAAP Holdings Ltd

**Notes to the consolidated financial statements
for the year ended 31 December 2017****4. Critical accounting judgements and key sources of estimation uncertainty**

Commentary: As the application of IFRS 15 requires significant judgements and certain key estimations, the matters disclosed here will be dictated by the circumstances of the individual entity, and by the significance of judgements and estimates made to the performance and financial position of the entity. Instead of disclosing this information in a separate note, it may be more appropriate to include such disclosures in the relevant asset and liability notes, or as part of the relevant accounting policy disclosures. IFRS 15.123 contains a specific disclosure requirement relating to the judgements, and changes in judgements, used in determining both of the following: the timing of satisfaction of performance obligations; and the transaction price and the amounts allocated to performance obligations. Note that an entity should also disclose information about significant judgements (IAS 1.122) and key sources of estimation uncertainty (IAS 1.125) for the financial statements as a whole.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements in applying accounting policies that the directors have made in the process of applying IFRS 15 Revenue from Contracts with Customers and that have the most significant effect on the amounts recognised in the consolidated financial statements.

4.1.1 Judgements in determining the timing of satisfaction of performance obligations

IFRS 15.123(a)

Note 13.6 describes the expenditure required in the year for rectification work carried out on goods supplied to one of the Group's major customers. These goods were delivered to the customer in the months of January to July 2017, and shortly thereafter defects were identified by the customer. Following negotiations, a schedule of works was agreed, which will involve expenditure by the Group until 2018. In the light of the problems identified, the directors were required to consider whether it was appropriate to recognise the revenue from these transactions of CU19 million in the current year, in line with the Group's policy of recognising revenue for the sale of goods when those goods are delivered to the customer, or whether it would be more appropriate to defer recognition until the rectification work was complete.

IFRS 15.125

In making their judgement, the directors considered the detailed criteria for the recognition of revenue set out in IFRS 15 and, in particular, whether the Group had transferred control of the goods to the customer. Following the detailed quantification of the Group's liability in respect of rectification work, and the agreed limitation on the customer's ability to require further work or to require replacement of the goods, the directors are satisfied that control has been transferred and that recognition of the revenue in the current year is appropriate, in conjunction with the recognition of an appropriate warranty provision for the rectification costs.

4.2 Key sources of estimation uncertainty

Commentary: The Group has no key sources of estimation uncertainty relating to revenue from contracts with customers. Entities should apply judgement based on their own individual facts and circumstances when identifying any key sources of estimation uncertainty.

5. Revenue

Commentary:

Disaggregation of revenue

The Group derives its revenue from the transfer of goods and services over time and at a point in time in the following major product lines. This is consistent with the revenue information that is disclosed for each reportable segment under IFRS 8 (see Note 6) :

IFRS 15.115

15

International GAAP Holdings Limited

Notes to the consolidated financial statements
for the year ended 31 December 2017**Commentary:**

IFRS 15.114 requires an entity to disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This disaggregation will depend on the entity's individual facts and circumstances. The Group has assessed that the disaggregation of revenue by operating segments in Note 6 is appropriate in meeting this disclosure requirement as this is the information regularly reviewed by the chief operating decision maker (CODM) in order to evaluate the financial performance of the entity. The Group also believes that presenting a disaggregation of revenue based on the timing of transfer of goods or services (i.e. at a point in time or over time) provides users of the financial statements with useful information as to the nature and timing of revenue from contracts with customers.

If an entity discloses disaggregated revenue on a basis other than that used for revenue information disclosed for each reportable segment the entity should disclose sufficient information to allow users of the financial statements to understand the relationship between these two disclosures.

IFRS 15.120	The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of the reporting period.	
IFRS 15.C5(d), IFRS 15.C6	As permitted under the transitional provisions in IFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of 31 December 2016 is not disclosed.	
		31/12/17 CU'000
	Maintenance obligations relating to electronic equipment	8,711
	Installation of software services	4,780
	Construction of residential properties	5,181
		<hr/> 18,672
IFRS 15.120(b)	Management expects that 72% of the transaction price allocated to the unsatisfied contracts as of 31 December 2017 will be recognised as revenue during the next reporting period (CU13,359,000). Of the remaining 28%, CU4,365,000 will be recognised in the 2019 financial year and CU948,000 in the 2020 financial year.	

Commentary:

There is no requirement in IFRS 15 for contract balances (i.e. contract assets, receivables and contract liabilities) to be disclosed together at a single place in the financial statements. Indeed it will likely be more practical for many entities to continue to include balances arising from contracts with customers within the same financial statement line item and related note as previously under IAS 18 e.g. contract liabilities within a deferred revenue note. IFRS 15 allows entities to use terms other than contract asset and contract liability to describe such balances.

Contract balances and the related disclosures have been included in the following places in the notes to the Group's accounts:

Receivables	balance described as 'Trade receivables (Note 25)
Contract assets	Note 27
Contract costs	Note 28
Contract liabilities	Note 41

Materiality considerations will affect the line items to be disclosed separately within each relevant IFRS 15 contract balance. A single net contract asset or liability should be presented for each contract balance. In this Appendix for illustrative purposes all line items are disclosed separately (ignoring the size of the balances involved).

International GAAP Holdings Limited

Notes to the consolidated financial statements
for the year ended 31 December 2017

23. Right to returned goods asset

		31/12/17	31/12/16
		CU'000	CU'000
			Restated
IFRS 15.B21(c)	Right to returned goods asset	646	699

IFRS 15.126(a) The right to returned goods asset represents the Group's right to recover products from customers where customers exercise their right of return under the Group's 30 day returns policy. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method.

25. Trade and other receivables

	31/12/17	01/01/16	01/01/16
	CU'000	CU'000	CU'000
		Restated	Restated
Trade receivables	13,994	10,768	9,623
Allowance for doubtful debts	(798)	(838)	(597)
	<u>13,196</u>	<u>9,930</u>	<u>9,026</u>
Deferred sales proceeds			
Toy manufacturing operations (see note 45)	960	–	
Partial disposal of E Plus Limited (see note 20)	1,245	–	
Others [describe]	54	20	120
	<u>15,455</u>	<u>9,950</u>	<u>9,146</u>

25.1 Trade receivables

IFRS 7.33(b) The average credit period on sales of goods is 60 days. No interest is charged on trade receivables for the first 60 days from the date of the invoice. Thereafter, interest is charged at 2% per annum on the outstanding balance. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 120 days because historical experience has been that receivables that are past due beyond 120 days are not recoverable. Allowances for doubtful debts are recognised against trade receivables between 60 days and 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

IFRS 7.34(c),
IFRS 7.36(c) Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 80% of the trade receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group. Of the trade receivables balance at the end of the year, CU6.9 million (31 December 2016: CU5.9 million) is due from Company A, the Group's largest customer (see notes 6.7 and 40.9). There are no other customers who represent more than 5% of the total balance of trade receivables.

IFRS 7.37 Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is more than 60 days outstanding) are still considered recoverable.

International GAAP Holdings Limited

Notes to the consolidated financial statements
for the year ended 31 December 2017

		31/12/17 CU'000	31/12/16 CU'000
IFRS 7.37(a)	<u>Age of receivables that are past due but not impaired.</u>		
	60 – 90 days	1,100	700
	91 – 120 days	462	333
	Total	1,562	1,033
	Average age (days)	84	85
IFRS 7.16	Movement in the allowance for doubtful debts		
		31/12/17 CU'000	31/12/16 CU'000
	Balance at beginning of the year	838	628
	Impairment losses recognised on receivables	63	430
	Amounts written off during the year as uncollectible	–	(220)
	Amounts recovered during the year	–	–
	Impairment losses reversed	(103)	–
	Foreign exchange translation gains and losses	–	–
	Unwind of discount	–	–
	Balance at end of the year	798	838
IFRS 7.33(a),(b) IFRS 7.37(b)	In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.		
	Included in the allowance for doubtful debts are individually impaired trade receivables amounting to CU63,000 (31 December 2016: CU430,000) from customers that have been placed into liquidation. The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected liquidation proceeds. The Group does not hold any collateral over these balances.		
IFRS 7.37(b)	Age of impaired trade receivables		
		31/12/17 CU'000	31/12/16 CU'000
	60 – 90 days	353	320
	91 – 120 days	191	101
	121+ days	654	717
		1,198	1,138
IFRS 15.113(b)	All of the above impairment losses relate to receivables arising from contracts with customers.		

International GAAP Holdings Limited

Notes to the consolidated financial statements
for the year ended 31 December 2017

25.2 Transfer of financial assets

IFRS 7.14(a), 42D(a), (b), (c), (f)	During the year, the Group discounted trade receivables with an aggregate carrying amount of CU1.052 million to a bank for cash proceeds of CU1 million. If the trade receivables are not paid at maturity, the bank has the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 32).
IFRS 7.42D(e)	At the end of the reporting period, the carrying amount of the trade receivables that have been transferred but have not been derecognised amounted to CU0.946 million and the carrying amount of the associated liability is CU0.923 million.

27. Contract assets

		31/12/17 CU'000	31/12/16 CU'000	01/01/16 CU'000
IFRS 15.116(a)	Construction contracts	240	230	697
	Installation of software services	3,414	3,794	3,562
		<u>3,654</u>	<u>4,024</u>	<u>4,259</u>
	Current	3,654	4,024	4,259
	Non – current	<u>–</u>	<u>–</u>	<u>–</u>
		<u>3,654</u>	<u>4,024</u>	<u>4,259</u>

IFRS 15.117	<p>Amounts relating to construction contracts are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance – related milestones. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.</p> <p>Payment for installation of software services is not due from the customer until the installation services are complete and therefore a contract asset is recognised over the period in which the installation services are performed to represent the entity's right to consideration for the services transferred to date.</p>
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Commentary

IFRS 15.118 contains a requirement to explain the significant changes in the contract asset and contract liability balance during the reporting period. As there has been no significant movement on these balances in the period no further disclosure has been included in this appendix.

IFRS 15.113(b)	There were no impairment losses recognised on any contract asset in the reporting period (2016: CU0).
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International GAAP Holdings Limited

Notes to the consolidated financial statements
for the year ended 31 December 2017

28. Contract costs

		31/12/17 CU'000	31/12/16 CU'000
IFRS 15.128(a)	Costs to obtain contracts	103	99

Costs to obtain contracts relate to incremental commission fees of 2% paid to intermediaries as a result of obtaining residential property sales contracts.

IFRS 15.127(a) These costs are amortised on a straight-line basis over the period of construction (in general, 2 years) as this
IFRS 15.127(b) reflects the period over which the residential property is transferred to the customer. In 2017, amortisation
IFRS 15.128(b) amounting to CU101,000 (2016: CU80,000) was recognised as part of cost of sales in the consolidated statement of profit or loss. There was no impairment loss in relation to the costs capitalised.

41. Contract liabilities

		31/12/17 CU'000	31/12/16 CU'000	01/01/16 CU'000
IFRS 15.116(a)	Amounts received in advance of delivery for internet sales (i)	229	247	261
	Maintenance services (ii)	8,711	8,729	8,127
	Arising from customer loyalty programme (iii)	184	147	104
	Amounts related to construction contracts (iv)	36	15	245
		<u>9,160</u>	<u>9,138</u>	<u>8,737</u>
	Current	5,235	5,140	5,084
	Non – current	<u>3,925</u>	<u>3,998</u>	<u>3,653</u>
		<u>9,160</u>	<u>9,138</u>	<u>8,737</u>

- IFRS 15.117 (i) For internet sales, revenue is recognised when control of the goods has transferred to the customer, being at the point the goods are delivered to the customer. When the customer initially purchases the goods online the transaction price received at that point by the Group is recognised as contract liability until the goods have been delivered to the customer.
- (ii) Revenue relating to maintenance services is recognised over time although the customer pays up-front in full for these services. A contract liability is recognised for revenue relating to the maintenance services at the time of the initial sales transaction and is released over the service period.
- (iii) A contract liability arises in respect of the Group's Maxi-Points Scheme as these points provide a benefit to customers that they would not receive without entering into a purchase contract and the promise to provide loyalty points to the customer is therefore a separate performance obligation. A contract liability is recognised for revenue relating to the loyalty points at the time of the initial sales transaction.
- IFRS 15.117 (iv) Contract liabilities relating to construction contracts are balances due to customers under construction contracts. These arise if a particular milestone payment exceeds the revenue recognised to date under the cost-to-cost method.

International GAAP Holdings Limited

**Notes to the consolidated financial statements
for the year ended 31 December 2017**

IFRS 15.118

There were no significant changes in the contract liability balances during the reporting period.

The following table shows how much of the revenue recognised in the current reporting period relates to brought – forward contract liabilities. There was no revenue recognised in the current reporting period that related to performance obligations that were satisfied in a prior year.

IFRS.116(b)
and (c)

Revenue recognised that was included in the contract liability balance at the beginning of the period

	31/12/17 CU'000	31/12/16 CU'000
Amounts received in advance for delivery of internet sales	247	261
Maintenance services	4,756	4,515
Arising from customer loyalty programme	122	63
Amounts related to construction contracts	15	245
	<u>5,140</u>	<u>5,084</u>

42. Refund liability

	31/12/17 CU'000	31/12/16 CU'000
	993	1,075

IFRS 15.119(d)
IFRS 15.126(a)

The refund liability relates to customers' right to return products within 30 days of purchase. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method.

Notes

Notes



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