

**Sample of Group Accounts (Extract) Provided by the HKICPA
To Illustrate the Impact of the Changes Introduced by the Bill**

Scenario

Company H is a hypothetical Hong Kong incorporated company holding a portfolio of receivables it securitizes.

2. **Column (1)** shows the balance sheet of Company H before the receivables are “sold” to a special-purpose entity (SPE) set up for the purpose of securitization.

3. **Column (2)** shows the balance sheet of Company H after the receivables are “sold” to the SPE for \$100. With cash generated from the sale of receivables, Company H pays off the bank loan of \$50. An unincorporated SPE is set up, with Company H holding an interest which is worth \$1, to issue securitization bonds totalling \$100. In the context of section 2(4) of the CO, the SPE, due to the way it is structured, is not construed as the Group’s subsidiary. However, as required **under the existing HKAS 27**, Company H makes a disclosure in a **note** to the accounts in respect of the SPE that are excluded from consolidation by virtue of statutory requirements but would have been consolidated by virtue of the accounting standard requirements.

4. **Column (3)** shows the consolidated balance sheet of Company H after the receivables are “sold” to the SPE for the purpose of securitisation. The financial information of the SPE, which fulfills one of the criteria determining “a subsidiary undertaking” as **proposed in the Bill**, has been consolidated in the balance sheet of Company H.

Sample Accounts

Company H
(Consolidated) Balance Sheet (Extract)
As at 31 December 200X

	(1)	(2)	(3)
	\$	\$	\$
Assets:			
Cash at hand	-	49	50
Receivables	100	-	100
Other assets	20	20	20
Investment in SPE	-	1 <small>(Note 1)</small>	-
Total Assets	<u>120</u>	<u>70</u>	<u>170</u>
Liabilities:			
Bonds	-	-	100
Bank loan	50	-	-
Other liabilities	20	20	20
Total Liabilities	<u>(70)</u>	<u>(20)</u>	<u>(120)</u>
Net assets	<u>50</u>	<u>50</u>	<u>50</u>
Financed by:			
Share capital	10	10	10
Retained earnings	40	40	40
Total Equity	<u>50</u>	<u>50</u>	<u>50</u>

Note 1 [relevant to column (2) only]

In 200X, the Company launched a securitization programme, under which a special-purpose entity (SPE) was set up to issue securitization bonds. All the receivables sold to the SPE would no longer be recognized as an asset in the balance sheet of the Group.

The major assets and liabilities of the SPE as at 31 December 200X are set out below -

	\$
Cash	1
Receivables	100
Total Assets	101
Bonds	100
Total Liabilities	100

In accordance with HKAS 27, the Group has set out below the significant items of the consolidated balance sheet of the Group and the SPE as at 31 December 200X -

	\$
Cash	50
Receivables	100
Total assets	170
Bonds	100
Total liabilities	120