International GAAP Holdings Limited

Model financial statements for the year ended 31 December 2017

(With early adoption of IFRS 16)

Appendix 1: Early application of IFRS 16 *Leases*

Introduction

This Appendix has been produced to complement the *International GAAP Holdings Limited* ("the Group") Model financial statements for the year ended 31 December 2017 ('the 2017 Disclosures'). It focuses on the changes introduced by the requirements in IFRS 16 *Leases* which is effective for annual periods beginning on or after 1 January 2019 (earlier application is permitted if disclosed and if IFRS 15 *Revenue from Contracts with Customers* is also applied).

General background to IFRS 16 *Leases*

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It will supersede the following Standards and Interpretations upon its effective date:

- IAS 17 *Leases*;
- IFRIC 4 *Determining whether an Arrangement contains a Lease*;
- SIC-15 *Operating Leases—Incentives*; and
- SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

Identification of a lease

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

a) the right to obtain substantially all of the economic benefits from the use of an identified asset; and

b) the right to direct the use of that asset.

The Standard provides detailed guidance to determine whether those conditions are met, including instances where the supplier has substantive substitution rights, and where the relevant decisions about how and for what purpose the asset is used are predetermined.

Lessee accounting

IFRS 16 introduces significant changes to lessee accounting: it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability (unless the lessee applies the fair value model in IAS 40 *Investment Property* to right-of-use assets that meet the definition of investment property in IAS 40 or applies the revaluation model in IAS 16 *Property, Plant and Equipment*).

The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate implicit in the lease (or if that rate cannot be readily determined, the lessee's incremental borrowing rate). Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

If a lessee elects not to apply the general requirements of IFRS 16 to short-term leases (i.e. one that does not include a purchase option and has a lease term at commencement date of 12 months or less) and leases of low value assets, the lessee should recognise the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is representative of the pattern of the lessee's benefits, similar to the current accounting for operating leases.

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. If the latter approach is selected, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is presented as an adjustment to opening retained earnings (or other component of equity as appropriate).

Lessor accounting

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, and continue to require a lessor to classify a lease either as an operating lease or a finance lease.

Other

In addition, IFRS 16 provides guidance on the accounting for sale and leaseback transactions. Extensive disclosures are also required by the new Standard.

Due to the prominence of leasing transactions, many entities across different industries will be affected by IFRS 16. 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 16 to various industries. These publications can be downloaded at https://www.iasplus.com/en/tag-types/global/newsletters/ifrs-industry-insights. A guide is also available at *Leases – A guide to IFRS 16*.

Key assumptions used in the preparation of this Appendix

- The Group is assumed to have adopted IFRS 16 for the annual reporting period ending 31 December 2017 (i.e., in advance of its mandatory effective date). While it is assumed that the Group has adopted concurrently IFRS 15 (as this is required in order to adopt IFRS 16 in advance of its mandatory date) and IFRS 9 *Financial Instruments*, the impact of the adoption of these Standards is not presented in this Appendix.

- The Group is both a lessor and a lessee.

- 1 January 2017 is the date of initial application of IFRS 16 (defined in accordance with IFRS 16.C2 as the beginning of the annual reporting period in which the Group first applies IFRS 16).

- The Group has chosen the full retrospective application of IFRS 16 in accordance with IFRS 16.C5(a). Consequently it has restated the comparative information and a (third) statement of financial position as at the beginning of the earliest comparative period is presented in accordance with IAS 1.10(f).

- 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, statement of cash flow and the notes relevant to IFRS 16 and that are affected by the initial application of IFRS 16 are included. Notes that are indirectly affected, 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. Entities should consider the effect of adjustments resulting from adoption of IFRS 16 on these, and indeed all, notes in the financial statements.

- This Appendix does not include disclosures related to all types of lease transactions (e.g. sale-and-leaseback transactions, etc.) but only those entered into by the Group.

- For the purpose of this Appendix it is assumed that the adoption of IFRS 16 does not have an impact on the tax laws applicable to the Group (i.e. it does not have an impact on current tax). The deferred tax effects are not presented in this Appendix.

- Details of the transition adjustments are disclosed in Note 2 in this Appendix.

Summary of the financial statement impact of application of IFRS 16 to International GAAP Holdings Limited

Area	Financial statement impact
Consolidated statement of financial position	The new requirements lead to an increase in recognised assets and liabilities. The Group, as lessee, had a significant portfolio of operating leases that were off-balance sheet under IAS 17. Most of these leases are recognised on-balance sheet under IFRS 16. The effect is more significant for leases with a longer lease period and a lower discount rate. The overall financial impact on the Group's assets and liabilities is summarised in Note 2. IFRS 16 requires that leased assets be presented separately from other assets and lease liabilities separately from other liabilities. This requirement can either be met by separate presentation on the face of the statement of financial position or within the notes. The Group has opted for a separate presentation of the right-of-use assets and lease liabilities from other assets and liabilities in the statement of financial position.
Consolidated statement of profit or loss and comprehensive income	The new Standard has resulted in a change in the amount and presentation of expenses related to leases formerly classified as operating leases (where the Group is a lessee). Under IAS 17, operating lease expense was presented as part of operating expenses. Applying IFRS 16, the expense is split into financing cost and depreciation expense. Consequently, key performance indicators (KPIs) such as operating profit and EBITDA, which are reported by the Group, have been affected. Please note that the separate presentation of KPIs may be subject to local requirements. There are some exceptions. Any rental payments not included in the initial measurement of the liability (e.g. variable leases payments) are classified as operating expenses, as well as the expenses relating to short-term and low-value lease contracts for which the Group, as a lessee, makes use of the available exemption. Initial direct costs incurred by the Group upon entering into a lease, as a lessee, are included in the cost of the right-of-use asset. Accordingly, these costs are now amortised over the lease term whereas they may have been expensed as incurred for operating leases under IAS 17. The adoption of IFRS 16 did not affect the other comprehensive income for the Group.
Consolidated statement of cash flows	Whereas under IAS 17 payments under operating leases were presented as part of cash flows from operating activities, under IFRS 16 lease payments are split between cash payments for the interest portion of the lease liability and repayment of its principal portion. As required by IFRS 16, the Group presents repayment of principal within the cash flows from financing activities. As permitted by IAS 7 and in accordance with the Group's accounting policy, interest paid is classified as part of cash flows from operating activities.

General note

Relatively few entities have adopted IFRS 16 in advance of its effective date and discussions about the application of IFRS 16 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.

Contents

Source	International GAAP Holdings Limited

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

Commentary:

For the purpose of these illustrative financial statements, notes are prepared only for those line items which are affected by IFRS 16.

Source		Notes	Year ended 31/12/17	Year ended 31/12/16
			CU'000	CU'000 (restated)
	Continuing operations			
	Revenue			
	Investment income			
	Impairment losses			
	Other gains and losses			
	Changes in inventories of finished goods and work in progress			
	Raw materials and consumables used			
IFRS 16.49	Depreciation and amortisation expenses	13		
	Employee benefits expense			
IFRS 16.49	Finance costs	9		
	Consulting expense			
	Other expenses			
	Share of profit of associates			
	Share of profit of a joint venture			
	Gain recognised on disposal of interest in former associate			
	Others [describe]			
	Profit before tax			
	Income tax expense			
	Profit for the year from continuing operations			
	Discontinued operations			
	Profit for the year from discontinued operations			
	PROFIT FOR THE YEAR			
	Attributable to:			
	Owners of the Company			
	Non-controlling interests			

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	CU'000 (restated)
	Earnings per share			
	From continuing and discontinued operations			
	Basic (cents per share)			
	Diluted (cents per share)			
	From continuing operations			
	Basic (cents per share)			
	Diluted (cents per share)			

Commentary:

The format outlined above aggregates expenses according to their nature.

Note that where the two-statement approach is adopted, as required by IAS 1.10A, the statement of profit or loss must be displayed immediately before the statement of comprehensive income.

Profit for the year			
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property			
Share of other comprehensive income of associates			
Remeasurement of defined benefit obligation			
Others (please specify)			
Income tax related to items that will not be reclassified subsequently to profit or loss			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations			
Net fair value gain on investments in debt instruments measured at FVTOCI			
Net fair value gain on hedging instruments entered into for cash flow hedges			
Others (please specify)			
Income tax related to items that will be reclassified subsequently to profit or loss			
Other comprehensive income for the year, net of income tax			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			
Attributable to:			
Owners of the Company			
Non-controlling interests			

Source	International GAAP Holdings Limited				
	Consolidated statement of financial position at 31 December 2017				
		Notes	31/12/17	31/12/16	01/01/16
			CU'000	CU'000 (restated)	CU'000 (restated)
	Assets				
	Non-current assets				
	Property, plant and equipment	15			
IFRS 16.47(a)	Right-of-use assets	26A			
	Investment property				
	Goodwill				
	Other intangible assets				
	Investments in associates				
	Investment in a joint venture				
	Deferred tax assets				
	Finance lease receivables				
	Other financial assets				
	Other assets				
	Total non-current assets				
	Current assets				
	Inventories				
	Trade and other receivables				
IFRS 16.47(a)	Right-of-use assets	26A			
	Finance lease receivables	26			
	Contract assets				
	Contract costs				
	Other financial assets				
	Current tax assets				
	Right to returned goods asset				
	Cash and bank balances				
	Assets classified as held for sale				
	Total current assets				
	Total assets				

Source	International GAAP Holdings Limited

Consolidated statement of financial position
at 31 December 2017

	Notes	31/12/17	31/12/16	01/01/16
		CU'000	CU'000	CU'000
			(restated)	(restated)

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.

Other than disclosures of certain specified information as required by IAS 1.41 – 44 and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, *the related notes to the third statement of financial position are not required to be disclosed.*

In this Appendix, as the application of IFRS 16 has resulted in retrospective restatement of items in the Group's consolidated statement of financial position as at 1 January 2016 (see note 2.6), the third consolidated statement of financial position has been presented.

The Group has chosen to present the right-of-use assets as well as lease liabilities on the face of the consolidated statement of financial position, instead of disclosing the amounts in the notes.

The requirement to present separately (on the statement of financial position or in the notes) the right-of-use assets does not apply to right-of-use assets that meet the definition of investment property, which should be presented in the statement of financial position as investment property. The Group does not have right-of-use assets that meet the definition of investment property.

Right-of-use assets presented within current assets capture right-of-use assets on leases with a lease term of 12 months or less. Because the Group has made use of the short-term lease exemption, it does not present any such amounts.

Right-of-use assets on leases with a lease term greater than 12 months are presented as non-current.

Source	International GAAP Holdings Limited				
	Consolidated statement of financial position at 31 December 2017 – continued				
		Notes	31/12/17	31/12/16	01/01/16
			CU'000	CU'000 (restated)	CU'000 (restated)
	Equity and liabilities				
	Capital and reserves				
	Issued capital and share premium				
	Other reserves				
	Retained earnings				
	Equity attributable to owners of the Company				
	Non-controlling interests				
	Total equity				
	Non-current liabilities				
	Borrowings				
IFRS 16.47(b)	Lease liabilities	32A			
	Other financial liabilities				
	Retirement benefit obligation				
	Deferred tax liabilities				
	Provisions				
	Contract liabilities				
	Refund liabilities				
	Deferred revenue				
	Other liabilities				
	Total non-current liabilities				

Source	International GAAP Holdings Limited				
	Consolidated statement of financial position at 31 December 2017 – continued				
		Notes	31/12/17	31/12/16	01/01/16
			CU'000	CU'000 (restated)	CU'000 (restated)
	Current liabilities				
	Trade and other payables				
	Amounts due to customers under construction contracts				
	Borrowings				
IFRS 16.47(b)	Lease liabilities	32A			
	Other financial liabilities				
	Current tax liabilities				
	Provisions				
	Deferred revenue				
	Other liabilities				
	Liabilities directly associated with assets classified as held for sale				
	Total current liabilities				
	Total liabilities				
	Total equity and liabilities				

Source	International GAAP Holdings Limited			
	Consolidated statement of cash flows **for the year ended 31 December 2017**			
		Notes	Year ended 31/12/17	Year ended 31/12/16
			CU'000	CU'000 (restated)
	Cash flows from operating activities			
	Receipts from customers			
IFRS 16.50(c)	Payments to suppliers and employees			
	Cash generated from operations			
IFRS 16.50(b)	Interest paid			
	Income taxes paid			
	Net cash generated by operating activities			
	Cash flows from investing activities			
	Payments to acquire financial assets			
	Proceeds on sale of financial assets			
	Interest received			
	Royalties and other investment income received			
	Dividends received from associates			
	Other dividends received			
	Amounts advanced to related parties			
	Repayments by related parties			
	Payments for property, plant and equipment			
	Proceeds from disposal of property, plant and equipment			
	Payments for investment property			
	Proceeds from disposal of investment property			
	Payments for intangible assets			
	Net cash outflow on acquisition of subsidiaries			
	Net cash inflow on disposal of subsidiary			
	Net cash inflow on disposal of associate			
	Net cash (used in)/generated by investing activities			

Source	International GAAP Holdings Limited			
	Consolidated statement of cash flows for the year ended 31 December 2017 – continued			
		Notes	Year ended 31/12/17	Year ended 31/12/16
			CU'000	CU'000 (restated)
	Cash flows from financing activities			
	Proceeds from issue of equity instruments of the Company			
	Proceeds from issue of convertible notes			
	Payment for share issue costs			
	Payment for buy-back of shares			
	Payment for share buy-back costs			
	Proceeds from issue of redeemable preference shares			
	Proceeds from issue of perpetual notes			
	Payment for debt issue costs			
	Proceeds from borrowings			
	Repayment of borrowings			
IFRS 16.50(a)	Repayment of the lease liabilities			
	Dividends paid on redeemable preference shares			
	Dividends paid to owners of the Company			
	Net cash used in financing activities			
	Net increase in cash and cash equivalents			
	Cash and cash equivalents at the beginning of the year			
	Effects of exchange rate changes on the balance of cash held in foreign currencies			
	Cash and cash equivalents at the end of the year	46		

Commentary:

The above illustrates the direct method of reporting cash flows from operating activities.

Payments to suppliers and employees includes short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liabilities. Interest paid includes cash payments for the interest portion of lease liabilities.

Source	International GAAP Holdings Ltd

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

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

Commentary:

The note below discloses the impact of the application of IFRS 16 only.

General impact of application of IFRS 16 *Leases*

IAS 8.28(a)-(c)
IFRS 16.C1

In the current year, the Group, for the first time, has applied IFRS 16 *Leases* (as issued by the IASB in January 2016) in advance of its effective date.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Group's consolidated financial statements is described below.

IFRS 16.C2

The date of initial application of IFRS 16 for the Group is 1 January 2017.

IAS 8.28(d)
IFRS 16.C5(a)

The Group has applied IFRS 16 using the full retrospective approach, with restatement of the comparative information.

Impact of the new definition of a lease

IAS 8.28(e)
IFRS 16.C4

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 1 January 2017.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2017 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;

b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss; and

c) separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. free rent period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within other expenses in the consolidated statement of profit or loss.

Source	International GAAP Holdings Ltd

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

Former finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

Impact on Lessor Accounting

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in the leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). Because of this change, the Group has reclassified certain of its sublease agreements as finance leases. As required by IFRS 9, an allowance for expected credit loss has been recognised on the finance lease receivables.

2.1. Financial impact of initial application of IFRS 16

The tables below show the amount of adjustment for each financial statement line item affected by the application of IFRS 16 for the current and prior year.

Commentary:

Unlike other recent Standards (e.g. IFRS 15 Revenue from Contracts with Customers*), for entities that adopt the new Standard using a full retrospective approach, IFRS 16 does not provide an exception from the requirement of IAS 8.28(f) to present the effect of the new Standard on the current period amounts.*

Source	**Impact on profit or loss**	Year ended 31/12/17	Year ended 31/12/16
		CU'000	CU'000
IAS 8.28(f)(i)	***Impact on profit (loss) for the year***		
	Increase in investment income (f)		
	Increase in depreciation and amortisation expense (a)		
	Increase in finance costs (a)		
	Decrease in other expenses (a), (e)		
	Increase (Decrease) in profit for the year		
	Increase (Decrease) in other comprehensive income for the year		
IAS 8.28(f)(ii)	***Impact on earnings per share***		
	Increase (Decrease) in earnings per share from continuing and discontinued operations		
	Basic (cents per share)		
	Diluted (cents per share)		
	Increase (Decrease) in earnings per share from continuing and discontinued operations		
	Basic (cents per share)		
	Diluted (cents per share)		

Source	International GAAP Holdings Ltd			
	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	IFRS 16 adjustments	As restated
		CU'000	CU'000	CU'000
	Property, plant and equipment (b), (f)			
	Right-of-use assets (a), (b)			
	Finance lease receivables (f)			
	Net impact on total assets			
	Borrowings (c)			
	Lease liabilities (a), (c)			
	Provision (d)			
	Other liabilities (e)			
	Net impact on total liabilities			
	Retained earnings			
	Net impact on total liabilities and equity			

IAS 8.28(f)(i)	***Impact on assets, liabilities and equity as at 31 December 2016***	As previously reported	IFRS 16 adjustments	As restated
		CU'000	CU'000	CU'000
	Property, plant and equipment (b), (f)			
	Right-of-use assets (a), (b)			
	Finance lease receivables (f)			
	Net impact on total assets			
	Borrowings (c)			
	Lease liabilities (a), (c)			
	Provision (d)			
	Other liabilities (e)			
	Net impact on total liabilities			
	Retained earnings			
	Net impact on total liabilities and equity			

Source	International GAAP Holdings Ltd

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 31 December 2017	As if IAS 17 still applied	IFRS 16 adjustments	As presented
	CU'000	CU'000	CU'000
Property, plant and equipment (b), (f)			
Right-of-use assets (a), (b)			
Finance lease receivables (f)			
Net impact on total assets			
Borrowings (c)			
Lease liabilities (a), (c)			
Provision (d)			
Other liabilities (e)			
Net impact on total liabilities			
Retained earnings			
Total impact on total liabilities and equity			

Group as a lessee

a) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and leases liabilities. It resulted in a decrease in other expense and an increase in depreciation and amortisation expense and in interest expense.

b) Equipment held under finance lease arrangements previously presented within property, plant and equipment is now presented within the line item right-of-use-assets. There has been no change in the amount recognised.

c) Lease liability on leases previously classified as financing leases under of IAS 17 and previously presented within borrowings is now presenting in the separate line lease liabilities. There has been no change in the liability recognised.

d) Provision for onerous operating lease contracts required under IAS 17 has been derecognised.

e) The lease incentives liability previously recognised with respect to operating leases has been derecognised and the amount factored in the measurement of the right-of-use assets and lease liabilities.

Group as a lessor

f) The Group, as a lessor, has reclassified certain of its sublease agreements as finance lease. The leased assets have been derecognised and finance lease asset receivables recognised. This change in accounting changes the timing of recognition of the related revenue (recognised in investment income).

Source	International GAAP Holdings Ltd

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

IAS 8.28(f)(i) The application of IFRS 16 has an impact on the consolidated statement cash flows of the Group.

Under IFRS 16, lessees must present

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities (the Group has included these payments as part of payments to suppliers and employees);
- Cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include the interest paid as part of operating activities); and
- Cash payments for the principal portion for leases liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by CU [X] million (31 December 2016, CU [X] million) and net cash used in financing activities increased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows.

Commentary:

The note above illustrates the information required if an entity applies IFRS 16 in accordance with the full retrospective transition approach.

If the Group had adopted IFRS 16 using the cumulative catch up approach, instead of the information required by IAS 8.28(f) (i.e., the impact of the new standard for the current and each prior period presented), it would be required to disclose the following information with respect to leases in which it is a lessee (as per IFRS 16.C12)

a) the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and

b) an explanation of any difference between:

i) operating lease commitments disclosed applying IAS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application as described in paragraph C8(a); and

ii) lease liabilities recognised in the statement of financial position at the date of initial application.

It would also be required to disclose whether it has used one or more of the specified practical expedients permitted by IFRS 16.C10 (as per IFRS 16.C13).

3. Significant accounting policies

3.1 The Group as lessee

IFRS 16.51
IFRS 16.60

The Group assesses whether a contract is or contains a lease, at inception of a contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Commentary:

If the Group uses its incremental borrowing rate, it shall explain how the rate is determined. The rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Source	International GAAP Holdings Ltd

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

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is memeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 *Impairment of Assets* to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in Note 3.18. (Not part of this Appendix.)

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "other expenses" in the statement of profit or loss (see note 26A).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

Source	International GAAP Holdings Ltd

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

3.2 The Group as lessor

IFRS 16.89

The Group enters into lease agreements as a lessor with respect to some of its investment properties. The Group also rents equipment to retailers necessary for the presentation and customer fitting and testing of footwear and equipment manufactured by the Group.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

When a contract includes lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

4. Critical accounting judgements and key sources of estimation uncertainty

Commentary:

As the application of IFRS 16 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 appropriate to include such disclosures in the relevant asset and liability notes, or as part of the relevant accounting policy disclosures.

Critical judgements required in the application of IFRS 16 may include, among others, the following:

- *Identifying whether a contract (or part of a contract) includes a lease;*
- *Determining whether it is reasonably certain that an extension or termination option will be exercised;*
- *Classification of lease agreements (when the entity is a lessor);*
- *Determination of whether variable payments are in-substance fixed;*
- *Establishing whether there are multiple leases in an arrangement;*
- *Determining the stand-alone selling prices of lease and non-lease components.*

Key sources of estimation uncertainty in the application of IFRS 16 may include, among others, the following:

- *Estimation of the lease term;*
- *Determination of the appropriate rate to discount the lease payments;*
- *Assessment of whether a right-of-use asset is impaired.*

For more details, please refer to note 4.2 of Deloitte IFRS Model Financial Statements 2017.

Source	International GAAP Holdings Limited

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

9. Finance costs

Source		Year ended 31/12/17	Year ended 31/12/16
		CU'000	CU'000 (restated)
	Continuing operations		
	Interest on bank overdrafts and loans (other than those from related parties)		
	Interest on loans from related parties		
IFRS 16.53(b)	Interest expense on lease liabilities		
	Interest on convertible notes		
	Interest on perpetual notes		
	Interest on interest-free government loans		
	Other interest expense		
	Total interest expense for financial liabilities not classified as at FVTPL		
	Less: amounts included in the cost of qualifying assets		
	Other finance costs		
	Total finance costs		

13. Depreciation and amortisation expense

Source		Year ended 31/12/17	Year ended 31/12/16
		CU'000	CU'000 (restated)
	Depreciation of property, plant and equipment		
IAS 38.118(d)	Amortisation of intangible assets (included in [cost of sales/depreciation and amortisation expense/administrative expense/other expenses])		
IFRS 16.53(a)	Depreciation of right-of-use-assets		
IAS 1.104	Total depreciation and amortisation expense		

15. Property, plant and equipment

Source		31/12/17	31/12/16
		CU'000	CU'000 (restated)
	Carrying amounts of:		
	Freehold land		
	Buildings		
	Plant and equipment		
IFRS 16.95	Assets subject to operating lease agreements (by class of assets)		

IFRS 16.96 — For the disclosure requirements set out in IAS 36, please refer to the Deloitte IFRS Model Financial Statements 2017.

Source	International GAAP Holdings Limited

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

26. Finance lease receivables

		31/12/17	31/12/16
		CU'000	CU'000 (restated)
	Current finance lease receivables		
	Non-current finance lease receivables		

IFRS 16.93 During the year, the finance lease receivables increased for the following reasons: [insert reasons]

26.1 Finance lease arrangements

IFRS 16.89 IFRS 16.92(a) IFRS 7.7 The Group entered into finance lease arrangements as a lessor for certain store equipment to its retailers. The equipment is necessary for the presentation and testing of footwear and equipment manufactured by the Group. The average term of finance leases entered into is 5 years. Generally, these lease contracts do not include extension or early termination options.

IFRS 16.92(b) The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in CU. Residual value risk on equipment under lease is not significant, because of the existence of a secondary market with respect to the equipment.

26.2 Amounts receivable under finance leases

		31/12/17	31/12/16
IFRS 16.94	Maturity analysis of finance lease payments	CU'000	CU'000 (restated)
	Year 1		
	Year 2		
	Year 3		
	Year 4		
	Year 5		
	Onwards		
	Lease payments		
	Unguaranteed residual values		
	Gross investment in the lease		
	Less: unearned finance income		
	Present value of minimum lease payments receivable		
	Impairment losses		
	Net investment in the lease		

Source	International GAAP Holdings Limited

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

IFRS 16.90

The following table presents the finance income on the net investment in the lease and income relating to variable lease payments not included in the net investment in the lease.

Source		Year ended 31/12/17	Year ended 31/12/16
		CU'000	CU'000 (restated)
IFRS 16.90(a)(i)	Selling profit/loss for finance leases		
IFRS 16.90(a)(ii)	Finance income on the net investment in finance leases		
IFRS 16.90(a)(iii)	Income relating variable lease payments not included in the net investment in finance leases		
IFRS 16.90(b)	Lease income on operating leases		
	Therein lease income relating to variable lease payments that do not depend on an index or rate		

The Group's finance lease arrangements do not include variable payments.

IFRS 7.7

The average effective interest rate contracted is approximately 8.9% (31 December 2016: 10.5%) per annum.

IFRS 7.36(c)

The finance lease receivables at the end of the reporting period are neither past due nor impaired.

26A. Leases (Group as a lessee)

IFRS 16.52
IFRS 16.59(a)

The Group leases several assets including buildings, plants, IT equipment. The average lease term is 5 years (2016: 5 years).

The Group has options to purchase certain manufacturing equipment for a nominal amount at the end of the lease term. The Group's obligations are secured by the lessors' title to the leased assets for such leases.

Right-of-use assets

Source		Buildings	Plant	Equipment	Total
IFRS 16.53(j)	Net carrying amount				
	31 December 2016 (restated)				
	31 December 2017				
IFRS 16.53(a)	Depreciation expense for the year ended				
	31 December 2016 (restated)				
	31 December 2017				

IFRS 16.53(h)

Approximately one fifth of the leases for property, plant and equipment expired in the current financial year. The expired contracts were replaced by new leases for identical underlying assets. This resulted in additions to right-of-use assets of CU [X] million in 2017 (2016: CU [X] million).

Source	International GAAP Holdings Limited

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

Source	Amounts recognised in profit and loss	Year ended 31/12/17 CU'000	Year ended 31/12/16 CU'000 (restated)
IFRS 16.53(a)	Depreciation expense on right-of-use assets		
IFRS 16.53(b)	Interest expense on lease liabilities		
IFRS 16.53(c)	Expense relating to short-term leases		
IFRS 16.53(d)	Expense relating to leases of low value assets		
IFRS 16.53(e)	Expense relating to variable lease payments not included in the measurement of the lease liability		
IFRS 16.53(f)	Income from subleasing right-of-use assets		

IFRS 16.55 At 31 December 2017, the Group is committed to CU [X] million (2016: CU [X] million) for short-term leases.

IFRS 16.B49 Some of the property leases in which the Group is the lessee contain variable lease payment terms that are linked to sales generated from the leased stores. Variable payment terms are used to link rental payments to store cash flows and reduce fixed cost. The breakdown of lease payments for these stores is as follows.

	Year ended 31/12/17 CU'000	Year ended 31/12/16 CU'000 (restated)
Fixed payments		
Variable payments		
Total payments		

IFRS 16.59(b)(i)
IFRS 16.B49 Overall the variable payments constitute up to [X]% of the Group's entire lease payments. The group expects this ratio to remain constant in future years. The variable payments depend on sales and consequently on the overall economic development over the next few years. Taking into account the development of sales expected over the next xx years, variable rent expenses are expected to continue to present a similar proportion of store sales in future years.

IFRS 16.53(g) The total cash outflow for leases amount to CU [X] million (2016: CU [X] million).

32A. Lease liabilities

	31/12/17 CU'000	31/12/16 CU'000 (restated)
Non-current		
Current		

Source	International GAAP Holdings Limited

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

Source	Maturity analysis	31/12/17 CU'000	31/12/16 CU'000 (restated)
IFRS 16.58	Not later than 1 year		
IFRS 7.39(a)	Later than 1 year and not later than 5 years		
IFRS 7.B11	Later than 5 years		

IFRS 7.39(c) The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

48. Operating lease arrangements

IFRS 16.89 Operating leases, in which the Group is the lessor, relate to investment property owned by the Group with lease terms of between 5 to 10 years, with one ten-year extension option. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period.

IFRS 16.92(b) The unguaranteed residual values do not represent a significant risk for the Group, as they relate to property which is located in a location with a constant increase in value over the last 8 years. The Group did not identify any indications that this situation will change.

IFRS 16.97 Maturity analysis of operating lease payments

	31/12/17 CU'000	31/12/16 CU'000 (restated)
Year 1		
Year 2		
Year 3		
Year 4		
Year 5		
Year 6 and onwards		
Total		

Notes

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Deloitte.