Date : 16 February 2011
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Topic : Accounting Bulletin 4 – Guidance on the Determination of Realised Profits and Losses in the Context of Distributions under the Hong Kong Companies Ordinance

Introduction

AB4 provides general guidance on the principles and determination of realised profit or loss for HK incorporated companies that prepare their financial statements under HKFRS, in the context of HKCO under sections 79A to 79P.

In June 2008 by the Hong Kong Government on the capital maintenance regime aspects of the Ordinance in the context of the programme to re-write the Ordinance The Government also noted that "realised profit" is a dynamic and complex accounting concept and that the introduction of a statutory definition may result in inflexibility.

AB4 are issued for general guidance only and do not introduce additional accounting, disclosure or legal requirements. They are therefore available as a source of guidance immediately on issue. (issued on May 2010)

AB4 should not be relied upon as a source of guidance on how to account for any given transaction in accordance with HKFRS. Instead, the original text of the HKFRS Standards and Interpretations, as set out in Volume II of the HKICPA Members' Handbook, should be referred to if in doubt. It does not aim to cover every aspect of the requirements covered by the Ordinance relating to distributions. Companies should consider taking their own legal advice, particularly in relation to any matters not covered by this guidance.

REALISED PROFITS

"Realised profits" are defined in section 79A(3) of the HKCO as those profits that fall to be treated as realised in the company's accounts in accordance with principles generally accepted with respect to the determination for accounting purposes of realised profits at the time those accounts were prepared.

In practice, it should not be assumed that all amounts which have been recorded in the company's income statement prepared in accordance with HKFRSs can be regarded as "realised" and hence distributable.

Reason :

1. increase the concept of income recognition in the income statement under HKFRSs is unrelated to the concept of realization under HKCO

2. Profits available for distribution may include amounts reported outside the profit and loss account (i.e. in Other Comprehensive Income or directly in equity

Realised profit

A profit is realised, as a matter of generally accepted accounting practice, where it arises from:

(a) a transaction where the consideration received by the company is "qualifying consideration"; or

(b) an event which results in "qualifying consideration" being received by the company in circumstances where no consideration is given by the company; or

(c) the recognition in the financial statements of a change in fair value, in those cases where fair value has been determined in accordance with measurement guidance in the relevant accounting standards or company law, and to the extent that the change recognised is readily convertible to cash; or

(d) the translation of:
 (i) a monetary asset which comprises qualifying consideration; or
 (ii) a liability,
 denominated in a foreign currency; or

(e) the reversal of a loss previously regarded as realised; or

(f) a profit previously regarded as unrealised (such as amounts taken to a revaluation reserve, merger reserve or other similar reserve) becoming realised as a result of:
 (i) consideration previously received by the company becoming "qualifying consideration"; or
 (ii) the related asset being disposed of in a transaction where the consideration received by the company is "qualifying consideration"; or
 (iii) a realised loss being recognized on the scrapping or disposal of the related asset; or

(iv) a realised loss being recognized on the write-down for depreciation, amortization, diminution in value or impairment of the related asset; or

(v) the distribution in specie of the asset to which the unrealised profit relates; or

(vi) the receipt of a dividend in the form of qualifying consideration when no profit is recognized because the dividend is deducted from the book value of the investment to which the unrealised profit relates (e.g. as required by HKAS 27 (before its amendment in October 2008) in the case of dividends out of pre-acquisition profits of subsidiaries)

in which case the appropriate proportion of the related unrealised profit becomes a realised profit.

2 concepts which are key to determining whether a profit is realised:

- qualifying consideration
- readily convertible to cash

Qualifying consideration

a) cash
b) an assets that is "readily convertible to cash"
c) the release, or the settlement or assumption by another party, of all or part of a liability of the company
d) an amount receivable in any of the above forms of consideration
    (i) the debtor is capable of settling the receivable within a reasonable period of time
    (ii) there is a reasonable certainty that the debtor will be capable of settling when called upon to do so
    (iii) there is an expectation that the receivable will be settled.

Readily convertible to cash

An asset, or change in the fair value of an asset or liability, is considered to be "readily convertible to cash" if :

a) a value can be determined at which a transaction in the asset or liability could occur, at the date of determination, without negotiation and/or marketing, to convert the asset, liability or change in fair value into cash or to close it out

b) the input for price determination is observable by market participants
c) the company's circumstances must not prevent immediate conversion of cash or close out of the asset, liability or change in fair value

   for example :

   - in disposing of the item there would not be any intention or need to liquidate or curtail materially the scale of the company's operations, or to undertake a transaction on adverse terms
   - revaluation gain arising on equity securities that are traded in an active market are usually considered to be realised, regardless of whether under HKAS 39 such changes are recorded in profit or loss or in other comprehensive income, because it will generally be possible to enter into a transaction to convert the change in value to cash at short notice without any period of maketing and/or negotiation
   - This contrasts with revaluation gains arising on investment properties carried at fair value under HKAS 40. Even though the valuation increases are recognized in profit or loss in the financial statements, these gains are not "realised" because the company would need to go through the process of negotiation and/or marketing of the property in order for the recognized gain to be converted into cash. Accordingly, such gains cannot be regarded as "realised" (and distributable) until the property is disposed of for qualifying consideration.

Instances of realised profit

(a) the receipt or accrual of investment or other income receivable in the form of qualifying consideration; or
(b) a gain arising on a return of capital on an investment where the return is in the form of qualifying consideration; or
(c) a gift (such as a 'capital contribution') received in the form of qualifying consideration; or
(d) the release of a provision for a liability or loss which was treated as a realised loss; or
(e) the reversal of a write-down or provision for diminution in value or impairment of an asset which was treated as a realised loss

Instances of realised loss

(a) a cost or expense (other than one charged to the share premium account) which results in a reduction in recorded net assets;

(b) a loss arising on the sale or other disposal or scrapping of an asset;
(c) the writing down, or providing for the depreciation, amortisation, diminution in value or impairment, of an asset,
(d) the creation of, or increase in, **a provision for a liability or** loss (other than deferred tax) which results in an overall reduction in recorded net assets;
(e) a gift made by the company (or the release of all or part of a debt due to the company or the assumption of a liability by the company) to the extent that it results in an overall reduction in recorded net assets; and
(f) a loss arising from fair value accounting where profits on remeasurement of the same asset or liability would be treated as realised profits.

Exception to Revaluation Provisions

79K(1) other than one in respect of a diminution in value of a fixed asset appearing on a revaluation of all the fixed assets of the company, or of all of its fixed assets other than goodwill, is treated as a realised loss.

The general rule is therefore that any provision (including one for depreciation or diminution in value as well as provisions for liabilities, charges or losses) is treated as a realised loss.

A "revaluation provision" which is a provision for diminution in value of a fixed asset appearing on a revaluation of all the fixed assets (other than goodwill) is not treated as a realised loss (section 79K(1)). However, this exception would not apply where the fixed asset has been sold or scrapped, because in these circumstances any loss would need to be reclassified as realised.

Applying the Guiding Principles to Specific Transactions

Goodwill in an individual company

Where goodwill arises in a company's individual accounts (which would be the case, for example, where the company has purchased an unincorporated business) the goodwill will become a realised loss as the goodwill is amortized or written down for impairment in accordance with relevant accounting standards.

FAIR VALUE ACCOUNTING

Financial instruments

The definition of "readily convertible to cash" is closely but not completely aligned with the measurement guidance in HKAS 39. Necessary differences remain.

In situations where:

(a) the financial instrument is traded in an active market; or

(b) the financial instrument is valued using a valuation technique whose variables include only data from observable markets,

It will generally be possible to enter into a transaction to convert the change in value to cash at short notice without any period of marketing and/or negotiation. Even when the instrument is not traded in an active market, there may be many institutions which will be prepared to quote a price based on observable market data at which a transaction could take place immediately. Such a change in value that is a profit would therefore, if readily convertible to cash, be regarded as **realised**.

However, a change in the fair value of a financial instrument that is a profit which is determined using a valuation technique where <u>not all of the variables</u> include data from observable markets would be regarded as **unrealised**. This would not be so where part of the profit can be closed out independently of the rest and that part may be realized.

Close out

Being readily convertible to cash if it could be immediately closed out, meaning the relevant contract or underlying market risk position is capable of being immediately offset in the market and the normal market practice would be to close out the position in this way. For example, risks inherent in a derivative may be eliminated by taking out other financial instruments, including derivative contracts, with an offsetting risk profile. When it is possible under normal market practice to enter into such arrangements to "Lock in" any profit on the original contract, the profit that could be "locked in" could be regarded as readily convertible to cash. <u>It is not necessary for an actual transaction to have occurred.</u>

Unquoted equity investment

The measurement of unquoted equity investments at fair value may be precluded because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot reasonably be assessed. Even where the value can be estimated sufficiently reliably to meet the requirements of HKAS 39 and an increase in fair value is recognized, it is unlikely that the amount would be readily convertible to cash at the date of determination. This is because, for example, a period of marketing and/or negotiation would generally be required to dispose of such an investment.

Strategic investments

Under a company's business strategy it may hold investments for strategic purposes. The investments cannot be readily changed and realised immediately at the date of determination.

For example, the company might have a strategic investment in a listed company that qualifies to be accounted for as an associate under HKAS 28. Increases in fair value of such listed investment might be regarded as realised but for condition (c) of the test for readily convertible to cash. Thus the fair value increases are, consequently, unrealised.

Available-for-sale financial assets and the fair value reserve

Under HKAS 39, profits and losses on "available-for-sale" financial assets are recognized in equity through other comprehensive income (except for dividends, interest, impairment losses and foreign exchange profits and losses on monetary items).

A profit was realised or unrealised NOT depended on whether the directors designated the particular assets "at fair value through profit or loss" or at AFS on initial recognition. It was according to the same principles that would apply if the same assets had been accounted for at fair value through profit or loss.

Investment properties

None of an increase in fair value of investment property is readily convertible to cash and is not therefore treated as a realised profit. This is because a period of marketing and/or negotiation would be required to dispose of such an investment and therefore it could not be converted to cash at the date of determination.

This is not intended to preclude a profit being regarded as realised at the date of determination in those cases when the process of marketing and/or negotiation is complete at that date and legal completion occurs shortly after the date of determination

Losses

Losses arising from fair value accounting should be treated as realised losses where profits on remeasurement of the same asset or liability would be treated as realised profits

A loss that represents the reversal of an unrealised profit will not reduce cumulative realised profits. Even if the loss is treated as a realised loss, for example because it represents an impairment, the unrealised profit will become realised.

Defined contribution schemes
For defined contribution retirement benefit schemes, the cost charged to the profit and loss account under HKAS 19 is equal to the contributions payable to the scheme for the accounting period. The charge to the profit and loss account for the contributions payable is a realised loss.

INTRA-GROUP TRANSACTIONS

Under both common law and statute, distributions are made by companies and not by groups. The group accounts are therefore not relevant for the purpose of determining realisation or distributability; for example, realised profits which are reflected in a parent's own accounts may be eliminated in the group accounts, and profits retained by subsidiaries are not distributable by the parent.

Dividends

Dividend received or receivable on an investment in a subsidiary
For a dividend received or receivable from a subsidiary to be treated as a realised profit, the consideration must be in the form of <u>qualifying consideration</u> (ie. Transfer of cash)

Accrual of intra-group dividends payable and receivable

A dividend will be accrued as receivable by a parent company only when the subsidiary has a <u>legally binding obligation</u> to make the distribution.

<u>Legal binding liability</u>
- Final dividend : declared by the company in general meeting or members passing a written resolution under s116B , regardless of the date on which it is to be settled.
- Interim dividend : a distribution is made only when the dividend is paid

Where the dividend is recorded on inter-company account and the effect of such an entry reduces the amount recorded as receivable from the parent to the dividend paying subsidiary, this would constitute settlement by way of set-off and would be <u>equivalent to a payment in cash</u> taking place at the date that the book entries were made by both companies to the extent that this does not reduce the amount recorded as receivable from the parent to the dividend-paying subsidiary below NIL.

Dividend by a subsidiary to a parent which provides or reinvests the funds in the subsidiary

if a subsidiary pays a dividend to a parent which directly or indirectly provides the funds for the dividend or reinvests the proceeds in the subsidiary, the dividend will not represent a realised profit for the parent if it does not receive in return for the provision of funds or their reinvestment an asset which is in the form of qualifying consideration. Thus, in such a case, the profit will be unrealised if, for example:

(a) the provision or reinvestment of funds is in the form of:
- (i) a subscription for shares, as the subsidiary is in effect capitalising its realised profits; or
- (ii) a capital contribution (i.e., a gift); or
- (iii) a loan which does not meet the definition of qualifying consideration; or
- (iv) a guarantee of borrowings used to fund the dividend (unless the likelihood that the guarantee will be called upon is remote); or

(b) the subsidiary is unlikely to be able to meet its obligations under any borrowings used to fund the dividend without recourse directly or indirectly to the parent

Sale of an asset by a parent to its subsidiary

If a parent sells an asset to a subsidiary, any profit on the sale of the asset will not represent a realised profit for the parent if it does not receive an asset which is in the form of qualifying consideration. Thus, in such a case, the profit will be unrealised if, for example:

(a) there is an agreement or understanding regarding the repurchase of the asset by the parent; or

(b) the parent directly or indirectly provides the funds for the purchase or reinvests the proceeds in the subsidiary where the provision or reinvestment of funds is in the form of:
- (i) a subscription for shares; or
- (ii) a capital contribution (i.e. a gift); or
- (iii) a loan which does not meet the definition of qualifying consideration; or
- (iv) a guarantee of borrowings used to fund the purchase (unless the likelihood that

the guarantee will be called upon is remote); or

(c) the subsidiary is unlikely to be able to meet its obligations under any borrowings used to fund the purchase without recourse directly or indirectly to the parent.

Sale of an asset by a subsidiary to a parent followed by a dividend to the parent of the resulting profit

If a subsidiary sells an asset to its parent and pays a dividend out of the resulting profit in circumstances where the transactions or arrangements, from the parent's perspective, the dividend will not give rise to a realised profit for the parent unless the asset which the parent purchased meets the definition of qualifying consideration. This is because the overall commercial effect of such an arrangement for the parent is similar to a dividend in specie

Dividend in specie

A dividend in specie from a subsidiary is an unrealised profit in the hands of the parent (even where there is a cash alternative) unless the asset distributed meets the definition of qualifying consideration. However, if the non-cash asset is distributed by the parent then, following section 79L, that unrealised profit would be treated by the parent as a realised profit for the purpose of that onward distribution, provided that the profit was recorded in the relevant accounts.

HKAS 12 Income taxes – Deferred tax

A provision for deferred tax should generally be regarded as a realised loss. However, when assets are revalued to their fair value, with any gain being recorded in the profit and loss account even though regarded as unrealised, the deferred tax on that gain should be treated as a reduction in that unrealised gain rather than as a realised loss.

For many financial instruments, profits arising from fair value accounting are realised profits. Any attributable deferred tax provision will be a realised loss.

For the remeasurement of investment property at fair value will result in unrealised profits on which deferred tax will have to be provided. Such a deferred tax provision is treated as a reduction in the unrealised profit rather than as a realised loss.

It may be necessary to provide for current tax on an unrealised profit. A current tax provision should be treated as a realised loss even if it arises from the taxation of an unrealised profit. This is because a provision for current tax represents a specific cash outflow that will arise irrespective of whether the related profit is realised or not.

Currency in which distributable profits are determined
Functional currency vs presentation currency

a company permits to present its financial statements in a currency other than its functional currency. Such a currency is referred to as a presentation currency. The currency in which those accounts are presented will determine the currency by which the amount of profits available for distribution is measured,

Exchange differences taken to equity other than through profit or loss
A profit arising on the retranslation of assets which do not comprise qualifying consideration (e.g. property, plant and equipment) is an unrealised profit.

It would not be appropriate to regard the exchange difference related to the amount of the opening cash balance (i.e., the beginning to the end of year exchange difference computed in relation to that part of the opening net assets equal to the opening cash balance) as realised if that cash balance did not exist throughout the period (e.g. because it was invested in assets such as property, plant and equipment which would not comprise qualifying consideration).

APPLY AB4 to ESTIMATE Net Realised profits available for distribution

- determine whether particular transactions may be regarded as giving rise to realised profits or losses
- determine which adjustments should be make to retained profits as reported under HKFRS in the Company's financial statements in order to arrive at net realizable profits

Adjustments to retained earnings

RETAINED EARNINGS
Excluding unrealised profits recognized in P/L
Ie. Revaluation gain of IP less deferred tax
Including realised profits recognized outside of P/L
Deducting realised losses recognized outside of P/L
Other permissible or required statutory adjustments

- any amounts reported in profit or loss that did not represent realised profits or losses
- other amounts recognized in equity other than profit or loss which may represent realised profits or losses.

Other consideration

1. Relevant accounts supporting a distribution

- normally latest audited financial statements,

- must prepare "interim accounts" if proposed distribution cannot be justified by reference to the company's last annual financial statements

- if the relevant accounts record an unrealised profit but state in a note that, as a consequence of an event subsequent to the balance sheet date, the profit has become realised, interim accounts must nevertheless be prepared before a distribution can be made out of these profits

- Under both the Ordinance and common law, distributions are made by individual companies and not by groups. Consolidated financial statements is not relevant

- It may helpful to disclose a note of which reserves are distributable in financial statement. However, there may be practical difficulties with providing such an analysis. (For example, there may be uncertainties about whether certain profits are realised or unrealised. There is generally no need for directors to form a view on whether profits are realised unless they intend to utilise them to make a distribution)

- It is possible to apply the exception for revaluation provisions in section 79K in circumstances where the accounting policy is cost (either through choice or because HKAS 39 does not permit the assets to be revalued). Thus, for example, an impairment write down of one subsidiary recognised in the financial statements may be offset by an increase in value of another subsidiary for the purposes of determining profits available for distribution even though the accounting policy is to carry investments in subsidiaries at cost and thus the increase in value is not recognised in the balance sheet.

- Even though in such circumstances the accounts including the equity accounting are the only statutory accounts for the entity, the share of results of associates/jointly-controlled-entities is not realised save to the extent that it is received as distributions in the form of qualifying consideration. Therefore the amount of a company's accumulated realised profits will be the same irrespective of whether the company accounts for its investments in associates / jointly controlled entities at cost or using the equity method / proportionate consolidation as appropriate for the purposes of satisfying the requirements under the Ordinance.

2. Directors' fiduciary duties

- the obligation on directors to safeguard the company□s assets and to ensure that the company is in a position to settle its debts as they fall due. The directors should consider whether it is prudent to be distribute profits even though they my otherwise be realised profits in accordance with this guidance, with regard for the future cash needs of the company.

- Where there is uncertainty as to whether a profit ought properly to be regarded as realised or unrealised, it may be prudent for directors to assume the profit is unrealised and therefore not regard the amount as being available for distribution

3. **Date of distribution : (legally binding liability)**

- Final dividend : declared by the company in general meeting or members passing a written resolution under s116B , regardless of the date on which it is to be settled.

- Interim dividend : a distribution is made only when the dividend is paid

- a shareholder's right to any unpaid dividend is as a creditor of the company rather than as a shareholder. (ie. In liquidation)

4. **Distribution in kind – Treatment of unrealised profits** (Effect of HK(IFRIC) Int 17 Distributions of Non-cash assets to owners)

Section 79L provides that where a company makes a distribution consisting of, or including a non-cash asset and any part of the amount at which the asset is stated in the accounts relevant to the distribution represents an unrealised profit, that profit is to be treated as realised for the purposes of the distribution. Thus if a company wishes to distribute in specie an asset with a historical cost of $100 and which is in the books at $130 (with the surplus in the revaluation reserve), the surplus of $30 is treated as realised for this purpose and only $100 of other realised profits are needed. However, if the surplus has been capitalised, it is no longer available for this purpose and other realised profits of $130 would be needed to cover the proposed distribution.

5. **Subsequent event**

- it may be necessary to take into account losses incurred after the balance sheet date (ie. Interim dividend or a purchase of own shares). In determining any proposed further distribution by reference to the same accounts, the directors must take account of any such distributions (section 79J(1)).

6. **Listed companies (additional requirements 79c)**

- a listed company may make a distribution only if, after giving effect to such distribution, net assets not less than the aggregate of

- called up share capital
- undistributable reserves

  (ie. S79C(2) Share premium and capital redemption reserve)

Subject to an additional "net assets" test, which restricts the profit available for distribution when the listed company has net unrealized losses.

7. Change in circumstance including change in accounting policies

- a change in the law or in accounting standards or interpretations, either through an express reference to the realization or otherwise of the profit or loss or, more commonly, through a change in the recognition or measurement of assets, liabilities, income or expenses; or

- some other change in circumstance (for example, where a receivable was initially regarded as qualifying consideration but circumstances change such that there is now no expectation that the receivable will be settled in the form of qualifying consideration).

- Although the effect of these changes may be to reduce or even eliminate a company's net realised profits, that would not render unlawful a distribution already made out of realised profits→distribution was made at the time when the accounts are prepared.

- If the effect of a new accounting standard or guidance on profits which fall to be treated as realised is to increase the company's accumulated profits and the company wishes to distribute an amount in excess of that which could be determined by reference to what would otherwise constitute the company's "relevant accounts", the company is required to prepare interim accounts complying with the new accounting standard or guidance. Where a listed company is in this position, those interim accounts are required to be delivered to the Registrar under section 79H.

Examples of adjustments that may need to be made to company level retained profits as reported under HKFRS in order to arrive at net realisable profits available for distribution:	AB4 Paragraph Reference
A Exclude profits which have been recognised in profit or loss but which are not yet realised	
Valuation gains from investment properties, less related deferred tax, to the extent that the properties are carried at the balance sheet date at more than cost	4.13 / 10.41
Valuation gains from fair value re-measurement of financial instruments (including embedded derivatives and financial liabilities), less any related deferred tax, that have been classified as at fair value through profit or loss under HKAS 39 but do not meet the "readily convertible to cash" criteria, to the extent that the assets are carried at the balance sheet date at more than cost (or, in the case of liabilities, are carried at less than cost)	4.2 – 4.11, 4.26 – 4.28, 10.40
Profits that arose from the swap of dissimilar assets or barter transactions, where the asset received did not meet the definition of "qualifying consideration" (e.g. profits arising on a swap of dissimilar properties) and is still held at the balance sheet date[3]	10.44 - 10.55
Negative goodwill (e.g. on the acquisition of an unincorporated business), to the extent not yet realised in accordance with the guidance in paragraph 3.25	3.24 – 3.27
Accumulated share of profits of associates or joint ventures recognised in the company's financial statements under the equity or proportional consolidation method, adjusted for any dividends received or receivable in the form of "qualifying consideration"	10.1 - 10.6
Exchange gains on retranslation of long-term inter-company balances denominated in foreign currencies, when the underlying balance does not meet the definition of "qualifying consideration"	3.21A
Dividends from subsidiaries and profits arising on other inter-company transactions which were not in the form of "qualifying consideration" when considered in isolation or together with other linked transaction(s). For example: - dividends from a subsidiary, or profits from sales of assets from the parent to a subsidiary, funded directly or indirectly by funds from the parent - sale of an asset by a subsidiary to the parent followed by a dividend out of the resulting profit, where the transactions and arrangements from the parent's perspective are in substance the receipt of a dividend in specie	9.5-9.34

[3] The amount that should be treated as unrealised is reduced as and when the acquired asset is depreciated, or written down for impairment [para.10.47]

B	***Include realised profits that were not recognised in profit or loss***	
	Valuation gains from available-for-sale financial instruments recognised in the fair value reserve, less any related deferred tax, except when they are not "readily convertible to cash" (for example, when there is no ready market for the instruments and/or they are being held for strategic purposes)	4.2 – 4.12, 4.25, 10.40
	Capital contributions from shareholders recognised directly in equity, which were received in cash or another form of qualifying consideration or converted into such since receipt	3.14(c)
	Option premiums received in the form of "qualifying consideration" recognised directly in equity (this does not include the amount credited to equity as the equity component of a convertible instrument), unless the amount has been credited by the company to a non-distributable reserve	6.16 – 6.20
	The credit entry recognised directly in equity for the fair value of options granted under a share-based payment arrangement[4], unless the amount has been credited by the company to a non-distributable reserve	7.46 – 7.56
	Amounts credited directly to a merger reserve within equity, to the extent that they have been realised in accordance with the guidance in paragraph 9.44 e.g. when dividends have been received from the relevant subsidiaries out of pre-acquisition profits	9.44
C	***Deduct realised losses that were not recognised in profit or loss***	
	Amounts debited directly to a merger reserve within equity which have become realised losses as a result of the corresponding assets being depreciated / impaired	9.35 – 9.40
D	***Consider other required or permissible statutory adjustments***	
	Under section 79C of the Ordinance, listed companies are subject to an additional "net assets" test, which restricts the profit available for distribution when the listed company has net unrealised losses	2.30 – 2.31, Appendix I
	Under section 79K of the Ordinance, certain losses may be regarded as unrealised if they arise on the revaluation of all of a company's fixed assets. For example, an impairment loss recognised in respect of an investment in a subsidiary carried at cost, which would otherwise be considered a realised loss, may be offset by an increase in value of another subsidiary even though that gain is not recorded in the financial statements. Certain conditions need to be met if a company intends to take advantage of this section: further details are set out in the Bulletin.	2.31A-2.31I

[4] This should be reduced by any amounts recognised directly in equity in respect of reimbursement to parent of a group share-based scheme accounted for as equity-settled in accordance with HK(IFRIC)-Int 11