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TOP IFRS VALUATION AGENDA IN 2020

September 2020

ABOUT VALTECH VALUATION

Valtech Valuation is powered by a team of valuation veterans and a network of consultants with multidisciplinary specialties, such as qualified valuers and surveyors, quantitative modelers and risk specialists. Our team has a strong track record to provide reliable, responsive and accountable opinions, especially in the complex real-world situation where multiple agenda are being concerned. For most engagements, we promise to arrange at least one CFA charterholder, one CPA holder and one specialist to ensure that your needs are always well listened and addressed.

300+

Valtech Valuation’s founding team is experienced in providing valuation services to over 300 listed companies in Hong Kong, mainland PRC, Taiwan, Australia, the United Kingdom, the United States and various European countries. In 2019/20, we have conducted valuation reviews on hundreds of target companies and reported our written opinion under Valtech Valuation.

Valtech Valuation has provided written opinions on an aggregate value of no less than HKD 100 billions of capital and real assets in the recent 2 years. Our reports have been referenced by a variety of users from state-owned giants to fast growing ventures.

100B+

Valtech Valuation has established strong connections with the management of Hong Kong listed companies, financial advisors, sponsors, legal advisors, PRC valuers, auditors and private investment funds. Our professional alliance can also provide robust opinions to meet the PRC State-owned Assets Supervision and Administration Commission (國資委) and China Securities Regulatory Commission’s (中證監) requirements.

2020 Top Agenda of Finance Controllers on IFRS Valuation and Tax Reporting

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Tax and Cross-
border Transfer
Pricing, BEPS



2020 Top Agenda of Finance Controllers on IFRS Valuation and Tax Reporting (1/2)

1

IFRS 9-compliant NAV Reporting

IFRS 9 requires fund managers and corporate management to recognize financial assets under a new 3-category rule based on a set of criteria. Each category requires substantially different valuation treatments.

- Amortised Cost / FVOCL / FVPL
- The historical investment cost becomes less relevant unless referenced as last resort.
- Management are expected to receive increasing scrutiny on the reported fair value by auditors and regulators, especially during market turbulence (e.g. early 2020).

We have advised fund managers and general partners on determining the adjusted NAV of private funds under an IFRS-compliant framework.

2

IFRS 9 Expected Credit Losses

IFRS 9 specifies a new impairment model based on the “expected” credit condition instead of the previous “incurred” premise.

- Management are expected to determine the 12-month and life-time expected credit losses with respect to a 3-stage framework. The losses, if determined material, will reduce the reported net values.
- “Forward-looking” information becomes essential in deriving the expected credit losses. Macro-economic regressions and scenario analysis are recommended.

We have advised management on the computation and interpretation of such unexpected IFRS losses to their stakeholders.

3

IAS 36 Impairment of Cash-Generating Units

IAS 36 itself is not a new topic, however it brings up further hassle after the new IFRS 16 Lease has come into effect since 2019.

- IAS 36 requires management to identify and test the recoverability of the cash-generating units on an annual basis if there is goodwill or assets with perpetual useful lives, or with impairment indications.
- Under the new IFRS 16, lease agreements in effect will be capitalized as right-of-use assets and their respective payable recognized as a debt-like liabilities.

The combined effect of IAS 36 and the new IFRS 16 poses extra burden for annual tests of the enlarged asset groups (e.g. especially for retail companies). In 2020, we have advised many clients on healthy transition into IFRS 16 from a valuation perspective.

2020 Top Agenda of Finance Controllers on IFRS Valuation and Tax Reporting (2/2)

4

Distressed Assets and Dispute Resolutions

Speculative, subordinated, mezzanine and high-yield investments usually feature huge valuation uncertainties during market turbulence. Investments with delayed or defaulted payment could be reclassified as distressed assets be reported as deep discounts to their original amounts.

- Investors may seek to justify the discount applied to the value of the distressed investments, with further consideration on the reduced market liquidity.

We provide professionally supported valuation reports which significantly reduce the time burden of the Board of Directors on conducting price discovery research, especially during market turbulence times.

5

Hybrid Securities and Hard-to-value instruments

Venture capitalists typically invest in the preference shares, redeemable and convertible instruments issued by early-stage companies. Unlike ordinary debt and equity financing, these risky instruments often provide extra protection and variable return with following typical features.

- Liquidation preference, at 1X/2X or IRR
- Conversion and auto-conversion
- Participation or non-participation
- Return caps and thresholds
- Early redemption, call & put features

Our derivative specialists are experienced in performing valuations that incorporate complex considerations, such that the value potential of such investments will not be undermined.

6

Tax and Cross-border Transfer Pricing, BEPS

Statutory requirements on tax valuation and transfer pricing reporting has gained increasing importance.

- In the mainland PRC, we see an increasing trend that local authorities require taxpayers to obtain an independent opinion on the proposed asset transfer between related-party taxpayers (e.g. subsidiaries under the same group) to justify the arm's length consideration of the tax amount.
- In Hong Kong, the Inland Revenue (Amendment) (No. 6) Ordinance 2018 was enacted on 13 July 2018 in relation to the statutory requirement on preparation of a local file on the group's transfer pricing arrangement (i.e. TP Documentation).

Our tax specialists are experienced in providing Hong Kong tax advisory and transfer pricing study and documentation and another BEPS solutions.

Our Innovation for Easier IFRS 9 applications

Valtech Valuation has prepared an exclusive tool to assist HKFRS 9 preparers to measure their expected credit loss rates based on empirical data and prevailing industry insights across various industries. Let's take the following three industries as examples, being a typical auto component manufacturer, a consumer product distributor and a power supply company as follows:



HIGHLIGHTS:

1. Quick credit loss insights consolidated from public disclosures of thousands listed companies across
2. Asian markets to support management's ECL analysis and auditor's reference.
3. Instant access to empirical loss distributions on trade receivables from various sectors and industries.
4. Benchmarking analysis on your historical default rates against the industry average.
5. Forward-looking adjustments implied from the latest macro-economic and industry specific moves.
6. Tailored professional services to map the market insights to your HKFRS 9 ECL matrix and risk policies.



THANK YOU