



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LAW SOCIETY OF HONG KONG

*(Incorporated in Hong Kong and limited by guarantee)*

We have audited the financial statements of The Law Society of Hong Kong ("the Society") set out on pages 195 to 217, which comprise the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

## **Council Members' responsibility for the financial statements**

The Council Members of the Society are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the Council Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Council Members, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LAW SOCIETY OF HONG KONG

*(Incorporated in Hong Kong and limited by guarantee)*

## Opinion

In our opinion, the financial statements give a true and fair view of the state of the Society's affairs as at 31 December 2014 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

## KPMG

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

31 March 2015

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014  
(Expressed in Hong Kong dollars)

	Note	2014	2013
<b>Income</b>	3	\$ 88,972,155	\$ 85,931,367
<b>Staff costs</b>	4(a)	(47,345,680)	(45,580,409)
<b>Office expenses</b>	4(b)	(5,285,883)	(4,981,658)
<b>Depreciation</b>	7	(2,524,798)	(2,459,958)
<b>Members' expenses</b>	4(c)	(6,628,899)	(6,021,247)
<b>Other operating expenses</b>	4(d)	(22,068,779)	(22,919,744)
<b>Surplus before taxation</b>	4	\$ 5,118,116	\$ 3,968,351
<b>Income tax</b>	6(a)	(531,025)	(407,639)
<b>Surplus and total comprehensive income for the year</b>		\$ 4,587,091	\$ 3,560,712

The notes on pages 199 to 217 form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

At 31 December 2014  
(Expressed in Hong Kong dollars)

	Note	2014	2013
<b>Non-current assets</b>			
Property, plant and equipment	7	\$ 88,851,696	\$ 90,481,178
Investments in subsidiaries	8	22	22
Deferred tax assets	13(b)	612,742	672,941
		<b>\$ 89,464,460</b>	<b>\$ 91,154,141</b>
<b>Current assets</b>			
Deposits, prepayments and other receivables	9	\$ 3,163,498	\$ 6,790,087
Amounts due from related companies	10	3,680,915	3,475,738
Amounts due from subsidiaries	10	338,135	288,700
Cash and deposits with banks	11	199,455,318	187,188,963
Current tax recoverable	13(a)	—	1,215,276
		<b>\$ 206,637,866</b>	<b>\$ 198,958,764</b>
<b>Current liabilities</b>			
Membership, practising certificate and other fees received in advance		\$ 54,964,538	\$ 52,782,239
Creditors and accrued charges	12	8,968,539	9,793,249
Current tax payable	13(a)	44,741	—
		<b>\$ 63,977,818</b>	<b>\$ 62,575,488</b>
		<b>\$ 142,660,048</b>	<b>\$ 136,383,276</b>
<b>Net current assets</b>			
		<b>\$ 232,124,508</b>	<b>\$ 227,537,417</b>
<b>Net assets</b>			
Representing:			
<b>Accumulated surpluses</b>		<b>\$ 232,124,508</b>	<b>\$ 227,537,417</b>

Approved and authorised for issue by the Council on 31 March 2015.

STEPHEN W.S. HUNG	)	
THOMAS S.T. SO	)	Council Members
	)	
HEIDI CHU	)	Secretary General
	)	

The notes on pages 199 to 217 form part of these financial statements.



## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014  
(Expressed in Hong Kong dollars)

	2014	2013
<b>Balance at 1 January</b>	<b>\$ 227,537,417</b>	\$ 223,976,705
Surplus and total comprehensive income	<b>4,587,091</b>	3,560,712
<b>Balance at 31 December</b>	<b>\$ 232,124,508</b>	\$ 227,537,417

The notes on pages 199 to 217 form part of these financial statements.

# CASH FLOW STATEMENT

For the year ended 31 December 2014  
(Expressed in Hong Kong dollars)

	Note	2014	2013
<b>Operating activities</b>			
Cash generated from operations	11(b)	\$ 10,448,588	\$ 10,473,348
Hong Kong profits tax refunded/(paid)		789,191	(2,089,242)
<b>Net cash generated from operating activities</b>		<b>\$ 11,237,779</b>	<b>\$ 8,384,106</b>
<b>Investing activities</b>			
Decrease in deposits with banks with maturity of more than three months at acquisition		\$ 14,363,090	\$ 63,778,292
Interest received		1,923,892	1,521,915
Payment for the purchase of property, plant and equipment		(895,316)	(396,999)
<b>Net cash generated from investing activities</b>		<b>\$ 15,391,666</b>	<b>\$ 64,903,208</b>
<b>Net increase in cash and cash equivalents</b>		<b>\$ 26,629,445</b>	<b>\$ 73,287,314</b>
<b>Cash and cash equivalents at 1 January</b>	11(a)	<b>132,262,968</b>	<b>58,975,654</b>
<b>Cash and cash equivalents at 31 December</b>	11(a)	<b>\$ 158,892,413</b>	<b>\$ 132,262,968</b>

The notes on pages 199 to 217 form part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 1 Status of the Society

The Society is a company limited by guarantee with no share capital. The liability of each member is limited to an amount not exceeding \$50. As at 31 December 2014, the Society had 9,422 members (2013: 8,967).

## 2 Significant accounting policies

### (a) Statement of compliance

These financial statements comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with the transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The Society has not prepared consolidated financial statements as the Council Members consider that the Society’s subsidiaries, which constituted 0.2% and 1.4% of the net assets at the end of the reporting period and surplus for the year of the Society, respectively, are immaterial, and the Council Members consider that such consolidated financial statements would be of no real value to the members of the Society in view of the insignificant amounts involved.

For the purposes of compliance with section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to sections 122 and 123 of the predecessor Hong Kong Companies Ordinance (Cap. 32), these financial statements have been prepared to present a true and fair view of the state of affairs and income and expenditure of the Society only. Consequently, they have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong and the requirements of the predecessor Hong Kong Companies Ordinance (Cap. 32) which apply to the preparation of separate unconsolidated financial statements.

These financial statements do not comply with HKFRS 10, *Consolidated financial statements*, so far as the preparation of consolidated financial statements is concerned. As a consequence, the financial statements do not give all the information required by HKFRS 10 about the economic activities of the group of which the Society is the parent. Full compliance with HKFRS 10 would require the Society to produce consolidated financial statements which disclose this information, as the Society does not have a parent which produces consolidated financial statements which are available for public use.

A summary of the significant accounting policies adopted by the Society is set out below.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (Continued)

### (a) Statement of compliance (Continued)

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Society. Of these, none of them is relevant to the Society's financial statements.

The Society has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### (c) Subsidiaries

Subsidiaries are entities controlled by the Society. The Society controls an entity when it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Society has power, only substantive rights (held by the Society and other parties) are considered.

In the Society's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(f)).

### (d) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses (see note 2(f)).



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (Continued)

### (d) Property, plant and equipment (Continued)

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Leasehold land classified as being held for own use under a finance lease is depreciated over the unexpired terms of lease;
- Buildings situated on leasehold land are depreciated over the shorter of their estimated useful lives, being 25 years from the date of purchase, and the unexpired terms of lease;
- Furniture, fixtures and equipment 3–5 years
- Leasehold improvements 5 years

Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

### (e) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Society determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Assets that are held by the Society under leases which transfer to the Society substantially all the risks and rewards of ownership are classified as being held under a finance lease.

Leases which do not transfer substantially all the risks and rewards of ownership to the Society are classified as operating leases.

Where the Society has the use of other assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (Continued)

### (f) Impairment of assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

#### (i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less cost of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

#### (ii) Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses are recognised to reduce the carrying amount of the asset or assets in the cash-generating unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal, or value in use, if determinable.

#### (iii) Reversal of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 2 Significant accounting policies (Continued)

#### (g) Disciplinary proceedings and ancillary costs

Disciplinary proceedings and ancillary costs are recognised in profit or loss in the year in which they are incurred. Whilst every effort is made by the Society to secure reimbursement of such amounts, due to the uncertainty as to whether such costs will be recovered by reference to the provisions of section 25(1) of the Legal Practitioners Ordinance, reimbursements of such costs are recognised in profit or loss only to the extent that they have been received. Also included in the financial statements under this heading are the costs incurred in respect of interventions within solicitors' practices. Such costs are only recoverable from the solicitors concerned and, in view of their nature, such costs are unlikely to be recovered in full.

#### (h) Deposits, prepayments and other receivables

Deposits, prepayments and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the Society about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Society is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### (i) Creditors and accrued charges

Creditors and accrued charges are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (Continued)

### (k) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

### (l) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in profit or loss or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

### (m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Society has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 2 Significant accounting policies (Continued)

### (n) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Society and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit or loss as follows:

- (i) Annual membership subscriptions, practising certificate fees, registration fees and other fees are recognised on a time-apportioned basis over the period to which they relate.
- (ii) Tuition fees for continuing professional development are recognised over the period of instruction.
- (iii) Interest income from bank deposits is recognised as it accrues using the effective interest method.

### (o) Related parties

- (a) A person, or a close member of that person's family, is related to the Society if that person:
  - (i) has control or joint control over the Society;
  - (ii) has significant influence over the Society; or
  - (iii) is a member of the key management personnel of the Society or the Society's parent.
- (b) An entity is related to the Society if any of the following conditions applies:
  - (i) The entity and the Society are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Society or an entity related to the Society.
  - (vi) The entity is controlled or jointly-controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 3 Income

The principal activity of the Society is to act as the professional and regulatory body for solicitors in Hong Kong.

#### Income consists of:

	Note	2014	2013
Annual membership fees		\$ 7,372,800	\$ 7,008,000
Practising certificate fees		41,045,000	38,965,000
Foreign lawyer registration fees		14,359,500	13,950,000
Foreign law firm registration fees		1,302,500	1,249,000
Other fees	3(a)	8,824,355	8,015,173
Disciplinary proceedings and ancillary costs reimbursed	2(g)	4,574,711	6,387,906
Continuing professional development		1,732,278	1,959,808
Miscellaneous income	3(b)	7,837,119	6,874,565
Bank interest income	11(b)	1,923,892	1,521,915
		<b>\$ 88,972,155</b>	<b>\$ 85,931,367</b>

- (a) Other fees include fees received for applications for waivers from compliance with guidelines on drafting Deeds of Mutual Covenant, applications and registration for examinations and applications for certificates of standing.
- (b) Miscellaneous income comprises principally income from advertisements in the Society's circulars, recharges to the Professional Indemnity Scheme for the Society's salaries and overheads incurred during the year in administering the Scheme and to the Hong Kong Academy of Law Limited for services provided by the Society during the year.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 4 Surplus before taxation

Surplus before taxation is arrived at after charging:

	Note	2014	2013
<b>(a) Staff costs</b>			
Salaries and allowances		\$ 41,969,986	\$ 41,209,011
Contributions to defined contribution retirement plan		4,863,173	4,868,648
Provident fund contribution forfeitures		(561,914)	(694,721)
Recruitment and training		1,074,435	197,471
		<b>\$ 47,345,680</b>	<b>\$ 45,580,409</b>
<b>(b) Office expenses</b>			
Operating lease charges: minimum lease payments in respect of property rentals		\$ 1,284,000	\$ 1,203,516
Rates and service charges		1,098,850	1,047,450
Electricity and telephone		537,201	527,427
Postage		205,669	184,544
Printing and stationery		1,803,863	1,706,858
Repairs and maintenance		356,300	311,863
		<b>\$ 5,285,883</b>	<b>\$ 4,981,658</b>
<b>(c) Members' expenses</b>			
Issue of membership cards		\$ 107,540	\$ 97,870
Functions		4,648,014	4,866,433
Meetings		1,873,345	1,056,944
		<b>\$ 6,628,899</b>	<b>\$ 6,021,247</b>
<b>(d) Other operating expenses</b>			
Conferences and overseas visits		\$ 356,231	\$ 623,419
Disciplinary proceedings and ancillary costs*	2(g)	6,451,428	4,950,728
Professional education		31,000	222,480
Professional and consultancy fees		1,813,170	3,938,498
Professional development		8,253,061	8,294,598
Auditor's remuneration		157,200	136,000
Annual subscriptions		54,995	41,096
Donations		—	5,100
Insurance and medical		2,009,239	1,446,938
Sundry		2,942,455	3,260,887
		<b>\$ 22,068,779</b>	<b>\$ 22,919,744</b>

\* \$1,114,544 (2013: \$2,009,606) was incurred in respect of interventions within solicitors' practices, and \$2,513,639 (2013: \$Nil) was incurred in respect of litigation cases.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 5 Remuneration of Council Members

Remuneration of Council Members disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), is as follows:

	2014	2013
Council Members' fees	\$ —	\$ —
Salaries, allowances and benefits in kind	—	—
Discretionary bonuses	—	—
Retirement scheme contributions	—	—
	<b>\$ —</b>	<b>\$ —</b>

### 6 Income tax in the statement of profit or loss and other comprehensive income

#### (a) Taxation (credited)/charged to profit or loss:

	2014	2013
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	\$ 475,995	\$ 426,423
Over-provision in respect of prior years	(5,169)	(3,142)
	<b>\$ 470,826</b>	<b>\$ 423,281</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	60,199	(15,642)
	<b>\$ 531,025</b>	<b>\$ 407,639</b>

The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2013–14 subject to a maximum reduction of \$10,000 (2013: the same statutory concession was granted for the year of assessment 2012–13 and was taken into account in calculating the provision for 2013).



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 6 Income tax in the statement of profit or loss and other comprehensive income (Continued)

(b) Reconciliation between tax expense charged to profit or loss and accounting surplus at the applicable tax rate:

	2014	2013
Surplus before taxation	\$ 5,118,116	\$ 3,968,351
Notional tax on surplus before taxation, calculated at the Hong Kong Profits Tax rate 16.5% (2013: 16.5%)	\$ 844,489	\$ 654,777
Tax effect of non-deductible expenses	13,978	13,978
Tax effect of non-taxable income	(317,442)	(251,116)
Statutory tax concession	(10,000)	(10,000)
Under-provision in prior years	4,831	6,858
Tax effect of unrecognised temporary differences	(4,831)	(6,858)
Actual tax expense charged to profit or loss	\$ 531,025	\$ 407,639

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 7 Property, plant and equipment

	Interest in leasehold land held for own use under a finance lease	Building held for own use	Leasehold improvements	Furniture, fixtures and equipment	Total
<b>Cost:</b>					
At 1 January 2014	\$ 76,666,667	\$ 38,333,333	\$ 12,613,997	\$ 6,877,760	\$ 134,491,757
Additions	—	—	204,400	690,916	895,316
Disposals	—	—	—	(389,543)	(389,543)
At 31 December 2014	\$ 76,666,667	\$ 38,333,333	\$ 12,818,397	\$ 7,179,133	\$ 134,997,530
<b>Accumulated depreciation:</b>					
At 1 January 2014	\$ 1,355,440	\$ 24,533,329	\$ 11,859,765	\$ 6,262,045	\$ 44,010,579
Charge for the year	84,715	1,533,333	302,349	604,401	2,524,798
Written back on disposals	—	—	—	(389,543)	(389,543)
At 31 December 2014	\$ 1,440,155	\$ 26,066,662	\$ 12,162,114	\$ 6,476,903	\$ 46,145,834
<b>Net book value:</b>					
At 31 December 2014	\$ 75,226,512	\$ 12,266,671	\$ 656,283	\$ 702,230	\$ 88,851,696
<b>Cost:</b>					
At 1 January 2013	\$ 76,666,667	\$ 38,333,333	\$ 12,454,197	\$ 6,644,741	\$ 134,098,938
Additions	—	—	159,800	237,199	396,999
Disposals	—	—	—	(4,180)	(4,180)
At 31 December 2013	\$ 76,666,667	\$ 38,333,333	\$ 12,613,997	\$ 6,877,760	\$ 134,491,757
<b>Accumulated depreciation:</b>					
At 1 January 2013	\$ 1,270,725	\$ 22,999,996	\$ 11,589,837	\$ 5,694,243	\$ 41,554,801
Charge for the year	84,715	1,533,333	269,928	571,982	2,459,958
Written back on disposals	—	—	—	(4,180)	(4,180)
At 31 December 2013	\$ 1,355,440	\$ 24,533,329	\$ 11,859,765	\$ 6,262,045	\$ 44,010,579
<b>Net book value:</b>					
At 31 December 2013	\$ 75,311,227	\$ 13,800,004	\$ 754,232	\$ 615,715	\$ 90,481,178

The leasehold land and building are held in Hong Kong under a long term lease.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 8 Investments in subsidiaries

	2014	2013
Unlisted shares, at cost	\$ 22	\$ 22

Details of the subsidiaries are as follows:

Name of company	Place of incorporation and operation	Proportion of ownership interest held by the company	Principal activity
The Law Society of Hong Kong Publications Limited *	Hong Kong	50%	Publishing the journal of the Society
The Law Society Clubhouse Limited *	Hong Kong	50%	Club services for members of the Society

\* Not audited by KPMG.

The profit of the subsidiaries for the year ended 31 December 2014 amounting to \$74,238 (2013: \$17,318) and the subsidiaries' accumulated losses of \$415,593 (2013: \$489,831) have not been dealt with in the financial statements of the Society.

### 9 Deposits, prepayments and other receivables

	2014	2013
Deposits and prepayments	\$ 2,613,418	\$ 6,335,136
Other receivables	550,080	454,951
	<b>\$ 3,163,498</b>	<b>\$ 6,790,087</b>

Deposits, prepayments and other receivables are expected to be recovered or recognised as an expense within one year.

### 10 Amounts due from subsidiaries and related companies

The amounts due from subsidiaries and related companies are unsecured, interest-free and have no fixed terms of repayment.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 11 Cash and deposits with banks

#### (a) Cash and deposits with banks comprise:

	2014	2013
Deposits with banks with maturity within three months at acquisition	<b>\$ 132,126,449</b>	\$ 114,675,952
Cash at bank and in hand	<b>26,765,964</b>	17,587,016
Cash and cash equivalents in the cash flow statement	<b>\$ 158,892,413</b>	\$ 132,262,968
Deposits with banks with maturity of more than three months at acquisition	<b>40,562,905</b>	54,925,995
Cash and deposits with banks in the statement of financial position	<b>\$ 199,455,318</b>	\$ 187,188,963

#### (b) Reconciliation of surplus before taxation to cash generated from operations:

	Note	2014	2013
Surplus before taxation		<b>\$ 5,118,116</b>	\$ 3,968,351
Adjustments for:			
Bank interest income	3	<b>(1,923,892)</b>	(1,521,915)
Depreciation	7	<b>2,524,798</b>	2,459,958
Changes in working capital:			
Decrease/(increase) in deposits, prepayments and other receivables		<b>3,626,589</b>	(703,442)
(Increase)/decrease in amounts due from related companies		<b>(205,177)</b>	1,925,441
Increase in amounts due from subsidiaries		<b>(49,435)</b>	(26,409)
(Decrease)/increase in creditors and accrued charges		<b>(824,710)</b>	1,854,128
Increase in membership, practising certificate and other fees received in advance		<b>2,182,299</b>	2,517,236
Cash generated from operations		<b>\$ 10,448,588</b>	\$ 10,473,348

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 11 Cash and deposits with banks (Continued)

#### (b) Reconciliation of surplus before taxation to cash generated from operations: (Continued)

As at 31 December 2014, the Society had \$16,372,179 (2013: \$16,568,028) cash and deposits with banks which were held on behalf of law firms in respect of their unclaimed clients' monies or law firms under intervention. The Council Members are of the opinion that these monies were deposited in specific bank accounts set up solely for these purposes and the Society is not entitled to use these monies. Therefore, the amounts have not been recognised in the statement of financial position of the Society.

### 12 Creditors and accrued charges

Creditors and accrued charges are expected to be settled within one year or are repayable on demand.

### 13 Income tax in the statement of financial position

#### (a) Current taxation in the statement of financial position represents:

	2014	2013
Provision for Hong Kong Profits Tax for the year	\$ 475,995	\$ 426,423
Provisional Profits Tax paid	(431,254)	(1,641,699)
Current tax payable/(recoverable)	\$ 44,741	\$ (1,215,276)

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 13 Income tax in the statement of financial position (Continued)

### (b) Deferred tax assets and liabilities recognised:

The components of deferred tax assets recognised in the statement of financial position and the movements during the year are as follows:

	<b>Depreciation in excess of the related depreciation allowances</b>
<b>Deferred tax arising from:</b>	
At 1 January 2013	\$ 657,299
Credited to profit or loss	15,642
At 31 December 2013	\$ 672,941
At 1 January 2014	\$ 672,941
Charged to profit or loss	(60,199)
At 31 December 2014	\$ 612,742

The Society has no significant unrecognised deferred tax assets and liabilities at 31 December 2013 and 2014.

## 14 Capital management

The Society is a company limited by guarantee and has no share capital. The Society considers its capital to be the accumulated surplus. The Society's primary objectives when managing its accumulated surplus is to safeguard the Society's ability to continue as a going concern, so that it can continue to provide support and protect the interest of its members.

Adjustments are made to the capital structure in light of changes in economic conditions affecting the Society to the extent that these do not conflict with the Council Members' fiduciary duties towards the Society or the requirements of the Hong Kong Companies Ordinance.

There has been no change in the Society's capital management practices as compared to prior year and the Society is not subject to any externally imposed capital requirements in both current and prior years.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 15 Financial risk management and fair values of financial instruments

Exposure to credit, liquidity and interest rate risks arises in the normal course of the Society's operation. The Society's exposure to these risks and the financial risk management policies and practices used by the Society to manage these risks are described below.

#### (a) Credit risk

The Society does not have any significant credit risk with respect to other receivables as they relate to a wide range of entities with no recent history of default.

The major exposure to credit risk is represented by deposits with banks. The Society's policy is to place its deposits with banks with major financial institutions with good credit rating.

#### (b) Liquidity risk

The Society's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

#### (c) Interest rate risk

The Society's interest rate risk arises primarily from deposits with bank at fixed rates that expose the Society to fair value interest rate risk. The Society's bank deposits have an effective interest rate of 1.12% (2013: 0.99%).

At 31 December 2014, it is estimated that a general decrease/increase of 100 basis points (2013: 100 basis points) in interest rates, with all other variables held constant, would have decreased/increased the Society's surplus and equity by approximately \$1,429,066 (2013: \$1,416,176).

The sensitivity analysis above has been determined assuming the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The analysis has been performed on the same basis as for 2013.

#### (d) Fair value measurement

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2014 and 2013.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 16 Operating lease commitments

At 31 December 2014, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2014	2013
Within one year	\$ 802,500	\$ 1,284,000
After one year but within five years	—	925,147
	<b>\$ 802,500</b>	<b>\$ 2,209,147</b>

The Society is the lessee in respect of a number of properties held under short-term operating leases. The leases typically run for an initial period of two years, at the end of which period all terms are renegotiated. None of the leases includes contingent rentals.

## 17 Professional Indemnity Insurance Scheme

It is the opinion of the Council that the assets and liabilities of the Professional Indemnity Insurance Scheme are not those of the Society and, accordingly, these assets and liabilities have not been included in these financial statements.

## 18 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Society entered into the following material related party transactions.

- (a) Charges for legal services in relation to intervention, disciplinary and litigation proceedings rendered to the Society by the firms of solicitors in which Council Members are interested totalled \$2.6 million (2013: \$0.8 million) for the year ended 31 December 2014.

Amounts due to these firms of solicitors as at 31 December 2014 amounted to \$0.8 million (2013: \$0.3 million) which are included in creditors and accrued charges.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

### 18 Material related party transactions (Continued)

(b)

	2014	2013
Expenses borne on behalf of a subsidiary	\$ 402,181	\$ 415,974
Recharge of office expenses to related entities	5,320,230	4,972,902

### 19 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2014

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Society.

	<b>Effective for accounting periods beginning on or after</b>
<i>Annual improvements to HKFRSs 2010–2012 Cycle</i>	1 July 2014
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Society is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Society's results of operations and financial position.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) came into operation from the Society's first financial year commencing after 3 March 2014 (i.e. the Society's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Society is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the financial statements.