

Notes to the Financial Statements

for the financial year ended 31 December 2005

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General^{1,2}

PwC Holdings Ltd (the "Company") is incorporated and domiciled in Singapore and is publicly traded on the Singapore Exchange. The address of its registered office³ is 350 Harbour Street, #30-00, Singapore 049929.

FRS 1(126)(a)

The principal activities of the Company are the manufacturing of component parts used in the electrical and electronic industry, and investment holding. The principal activities of its subsidiaries are manufacturing of component parts used in the electrical and electronic industry, manufacturing of furniture, and construction of buildings and equipment. The glass business segment was discontinued during the financial year (Note 11).

FRS 1(126)(b)

Guidance Notes

General

1. The following items need not be disclosed in the financial statements if they are disclosed elsewhere in the information published with the financial statements:

FRS 1(126)

- (a) the domicile and legal form of the company, its country of incorporation and the address of the registered office;
- (b) a description of the nature of the company's operations and its principal activities; and
- (c) the name of the parent company and the ultimate parent company of the group

2. If the Company changes its name during the financial year, this change should be disclosed as suggested below:

FRS 1(46)(a)

"With effect from [effective date of change], the name of the Company was changed from XYZ Pte Ltd to ZYX Pte Ltd."

3. If the principal place of business is different from the registered office, the former should be disclosed.

FRS 1(126)(a)

2. Significant accounting policies^{1,2}

FRS 1(103)(a)

2.1 Basis of preparation^{25,26}

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS")^{3,4}. The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

FRS 1(14)

FRS 1(108)(a)

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity, are disclosed in Note 4.

FRS 1(113)
FRS 1(116)

In 2005, the Group and the Company adopted the new or revised FRS and Interpretations to FRS (INT FRS) that are applicable in the current financial year. The 2005 financial statements have been amended as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS⁵. The following are the FRS and INT FRS that are relevant to the Group:

FRS 8(28)(b)
FRS 8(28)(a)

FRS 1 (revised 2004) Presentation of Financial Statements	FRS 1(127)
FRS 2 (revised 2004) Inventories	FRS 2(40)
FRS 8 (revised 2004) Accounting Policies, Changes in Accounting Estimates and Errors	FRS 8(54)
FRS 10 (revised 2004) Events after the Balance Sheet Date	FRS 10(23)
FRS 16 (revised 2004) Property, Plant and Equipment	FRS 16 (81)
FRS 17 (revised 2004) Leases	FRS 17(69)
FRS 21 (revised 2004) The Effects of Changes in Foreign Exchange Rates	FRS 21(58)
FRS 24 (revised 2004) Related Party Disclosures	FRS 24(23)
FRS 27 (revised 2004) Consolidated and Separate Financial Statements	FRS 27(43)
FRS 28 (revised 2004) Investments in Associates	FRS 28(41)
FRS 31 (revised 2004) Interests in Joint Ventures	FRS 31 (58)
FRS 32 (revised 2004) Financial Instruments: Disclosure and Presentation	FRS 32(96)
FRS 33 (revised 2004) Earnings per Share	FRS 33(74)
FRS 36 (revised 2004) Impairment of Assets	FRS 36(139)
FRS 38 (revised 2004) Intangible Assets	FRS 38(130)
FRS 39 (revised 2004) Financial Instruments: Recognition and Measurement	FRS 39(103)
FRS 102 Share-based Payments	FRS 102(60)
FRS 103 Business Combinations	FRS 103(78)
FRS 105 Non-current Assets Held for Sale and Discontinued Operations	FRS 105(44)
INT FRS 101 Changes in Existing Decommissioning, Restoration and Similar Liabilities	INT FRS 101(9)
Amendments to INT FRS 12 Consolidation – Special Purpose Entities	Amendment to INT FRS 12 (7)

The adoption of the above FRS and INT FRS did not result in substantial changes to the Group's accounting policies except as disclosed in Note 3.

FRS 8(28)(c)

2.2 Revenue recognition

FRS 18(35)(a)

Revenue for the Group comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services, net of goods and services tax, rebates and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

FRS 18(9)

(a) Sale of goods

Revenue from the sale of goods is recognised when a Group entity has delivered the products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

FRS 18(14)

Component parts and furniture are often sold with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(b) Rendering of services

Revenue from logistics services is recognised over the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be performed. The accounting policy for revenue from construction contracts is disclosed in Note 2.8.

FRS 18(20)

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and thereafter amortising the discount as interest income.

FRS 18(30)(a)

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

FRS 18(30)(c)

(e) Rental income

Rental income from operating leases on investment properties is recognised on a straight-line basis over the lease term. Rental income from finance leases on plant and equipments is recognised based on a constant periodic rate of return over the lease term using the net investment method.

FRS 17(50)

FRS 17(39)

2.3 Group accounting⁶**(a) Subsidiaries**

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

FRS 27(13)

FRS 27(14)

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest. Please refer to Note 2.6(a) for the accounting policy on goodwill on acquisition of subsidiaries.

FRS 103(14)

FRS 103(24)

FRS 103(36)

Subsidiaries are consolidated from the date on which control is transferred to the Group to the date on which that control ceases. In preparing the consolidated financial statements, intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group⁷.

FRS 27(30)

FRS 27(24)

FRS 27(29)

Minority interest is that part of the net results of operations and of net assets of a subsidiary attributable to interests which are not owned directly or indirectly by the Group. It is measured at the minorities' share of the fair value of the subsidiaries' identifiable assets and liabilities at the date of acquisition by the Group and the minorities' share of changes in equity since the date of acquisition, except when the losses applicable to the minority in a subsidiary exceed the minority interest in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minority are attributed to the equity holders of the Company, unless the minority has a binding obligation to, and is able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority are attributed to the equity holders of the Company until the minority's share of losses previously absorbed by the equity holders of the Company has been recovered.

FRS 27(4)

FRS 27(22)(c)

FRS 27(35)

Please refer to Note 2.10 for the Company's accounting policy on investments in subsidiaries.

(b) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between and including 20% and 50% of the voting rights. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting. Investments in associated companies in the consolidated balance sheet include goodwill (net of accumulated amortisation) identified on acquisition, where applicable. Please refer to Note 2.6(a) for the Group's accounting policy on goodwill.

FRS 28(2)
FRS 28(6)
FRS 28(13)

FRS 28(23)(a)

Equity accounting involves recording investments in associated companies initially at cost, and recognising the Group's share of its associated companies' post-acquisition results and its share of post-acquisition movements in reserves against the carrying amount of the investments. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

FRS 28(11)

FRS 28(29)
FRS 28(30)

In applying the equity method of accounting, unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of associated companies to ensure consistency of accounting policies with those of the Group.⁷

FRS 28(22)

FRS 28(27)

Please refer to Note 2.10 for the Company's accounting policy on investments in associated companies.

(c) Joint ventures

Joint ventures are entities over which the Group has contractual arrangements to jointly share the control with one or more parties. The Group's interest in joint ventures is accounted for in the consolidated financial statements by proportionate consolidation¹⁰.

FRS 31(24)
FRS 31(30)

Proportionate consolidation involves combining the Group's share of joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture to the extent that it is attributable to the other venturers. The Group does not recognise its share of results from the joint ventures that arose from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. Where necessary, adjustments are made to the financial statements of joint ventures to ensure consistency of accounting policies with those of the Group.⁷

FRS 31(34)

FRS 31(48)

FRS 31(49)

Please refer to Note 2.10 for the Company's accounting policy on investments in joint ventures.

(d) Transaction costs

Costs directly attributable to an acquisition are included as part of the cost of acquisition.

FRS 103(29)

Notes to the Financial Statements

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2.4 Property, Plant and Equipment

(a) Measurement

(i) Land and buildings

Land and buildings are initially recorded at cost.

FRS 16(73)(a)

Freehold land is subsequently stated at fair value less accumulated impairment losses (Note 2.11). Buildings and leasehold land are subsequently stated at fair value less accumulated depreciation and accumulated impairment losses (Note 2.11).

FRS 16(31)

Fair values of land and buildings are determined by an independent professional valuer on a triennial basis and whenever their carrying amounts are likely to differ materially from their fair values¹¹. When an asset is revalued, any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is then restated to the revalued amount of the asset. Revaluation surpluses are taken to the asset revaluation reserve, unless they offset previous revaluation losses of the same asset that were taken to the income statement. Revaluation losses are taken to the asset revaluation reserve, to the extent that they offset previous revaluation surpluses of the same asset that were taken to the asset revaluation reserve. Other revaluation surpluses or losses are taken to the income statement.

FRS 16(32)
FRS 16(34)

FRS 16(35)(b)

FRS 16(39)

FRS 16(40)

(ii) Other Property, Plant and Equipment

All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses (Note 2.11).

FRS 16(73)(a)

(iii) Component of costs

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

FRS 16(16)(b)
FRS 16(16)(c)

FRS 39(98)(b)

(b) Depreciation

Freehold land is not depreciated. Depreciation on other property, plant and equipment is calculated using the straight line method to allocate their depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

FRS 16(73)(b)

FRS 16(73)(c)

	<u>Useful lives</u>
Buildings and leasehold land	Shorter of 50 years and the lease term
Motor vehicles	4 years
Plant and equipment	5 – 15 years

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date.

FRS 16(51)

Notes to the Financial Statements

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(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

FRS 16(7)

FRS 16(12)

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the income statement. Any amount in revaluation reserve relating to that asset is transferred to retained earnings.

FRS 16(68)
FRS 16(71)

FRS 16(41)

2.5 Development properties¹²

Development properties are investment properties being constructed or developed for future rental. They are stated at cost less accumulated impairment losses (Note 2.11), until construction or development is completed, at which time they are reclassified to be accounted for as investment properties. Cost capitalised include cost of land and other directly related development expenditure, including borrowing costs incurred in developing the properties (see Note 2.7).

FRS 16(22)

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition of subsidiaries, joint ventures or associated companies over the fair value at the date of acquisition of the Group's share of their identifiable net assets.

FRS 103(51)

(i) Acquisitions pre-1 January 2001

Goodwill on acquisitions were adjusted against retained earnings¹³ in the year of acquisition.

The Group also had acquisitions where the costs of acquisitions were less than fair value of the identifiable net assets acquired. Such differences ("negative goodwill"¹³) were adjusted against retained earnings in the year of acquisition.

On disposal of the subsidiaries, associated companies or joint ventures, such goodwill and negative goodwill previously adjusted against retained earnings are not recognised in the income statement.

FRS 103(80)

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(ii) Acquisitions post 1 January 2001

Goodwill on acquisitions of subsidiaries and joint ventures is included in intangible assets. Goodwill on acquisition of associated companies is included in investments in associated companies.

Goodwill for acquisitions post 1 January 2005 is determined after deducting the Group's share of their identifiable net assets and contingent liabilities.

From 1 January 2005¹⁴, goodwill recognised as intangible assets is tested at least annually for impairment and carried at cost less accumulated impairment losses (Note 2.11). Please refer to Note 3.7(i) for accounting of goodwill prior to 1 January 2005.

FRS 103(54)
FRS 103(55)

Gains and losses on the disposal of the subsidiaries, associated companies and joint ventures include the carrying amount of goodwill relating to the entity sold.

FRS 36(86)

(b) Trademark and licences

Acquired trademarks and licences are stated at cost less accumulated amortisation and accumulated impairment losses (Note 2.11). Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives of 15 to 20 years.

FRS 38(74)
FRS 38(118)(b)
FRS 38(118)(a)

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Direct expenditure, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is recognised as a capital improvement and added to the original cost of the software. Costs associated with maintaining computer software are recognised as an expense as incurred.

FRS 38(4)
FRS 16(7)
FRS 16(12)

Computer software licences are stated at cost less accumulated amortisation and accumulated impairment losses (Note 2.11). These costs are amortised using the straight-line method over their estimated useful lives of three to five years.

FRS 38(118)(b)
FRS 38(118)(a)

2.7 Borrowing costs

Borrowing costs incurred to finance the development of properties are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are recognised on a time-proportion basis in the income statement using the effective interest method.

FRS 23(11)
FRS 23(20)
FRS 23(10)
FRS 39(47)

The amount of borrowing cost capitalised on that asset is the actual borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings.

FRS 23(15)

2.8 Construction contracts

A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

FRS 11(3)

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable. Contract costs are recognised when incurred. When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised by using the stage of completion method. The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

FRS 11(39)(b)

FRS 11(32)

FRS 11(22)

FRS 11(39)(c)

FRS 11(36)

Costs incurred during the financial year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress. The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the financial year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on construction contracts, under trade and other receivables. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on construction contracts, under trade and other payables.

FRS 11(31)

FRS 11(42)

FRS 11(43)

FRS 11(44)

2.9 Investment properties

Investment properties of the Group, principally comprising residential buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are treated as non-current investments and are stated at revalued amounts, representing open market value determined on an annual basis by an independent professional valuer. Investment properties are not subject to depreciation.

FRS 25(4)

FRS 25(49)(a)(i)

FRS 25(49)(f)

When an investment property is revalued, revaluation surpluses are taken to the asset revaluation reserve, unless they offset previous revaluation losses of the same investment¹⁵ that were taken to the income statement. Revaluation losses are taken to the asset revaluation reserve, to the extent that they offset previous revaluation surpluses of the same investment that were taken to the asset revaluation reserve. Other revaluation surpluses or losses are taken to the income statement.

FRS 25(49)(a)(ii)
FRS 25(32)

If investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as development property until construction or development is completed, at which time it is reclassified and accounted for as investment property.

On disposal of an investment property, the difference between the net disposal proceeds and the carrying amount is taken to the income statement; any amount in revaluation reserve relating to that investment property is also transferred to the income statement.¹⁶

FRS 25(33)

2.10 Investments in subsidiaries, joint ventures and associated companies

Investments in subsidiaries, joint ventures and associated companies are stated at cost less accumulated impairment losses (Note 2.11) in the Company's balance sheet. On disposal of investments in subsidiaries, joint ventures and associated companies, the difference between net disposal proceeds and the carrying amount of the investment is taken to the income statement.

FRS 25(49)(a)(i)

Notes to the Financial Statements

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2.11 Impairment of assets

(a) Goodwill

Goodwill is tested annually for impairment, as well as when there is any indication that the goodwill may be impaired.

FRS 36(9,10(b))

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units (CGU) expected to benefit from synergies of the business combination.

FRS 36(80)

An impairment loss is recognised in the income statement when the carrying amount of CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of the CGU is the higher of the CGU's fair value less cost to sell and value in use.

FRS 36(90)

The total impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

FRS 36(104)

Impairment loss on goodwill is not reversed in a subsequent period.

FRS 36(124)

(b) Intangible assets

Property, plant and equipment

Investments in subsidiaries, associated companies and joint ventures

Intangible assets, property, plant and equipment and investments in subsidiaries, associated companies and joint ventures are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) of the asset is estimated to determine the amount of impairment loss.

FRS 36(9)

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs to.

FRS 36(22)

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is recognised in the income statement unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

FRS 36(59)

FRS 36(60)

An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the income statement, unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

FRS 36(114)

FRS 36(117)

FRS 36(119)

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2.12 Investments in financial assets

(a) Classification

The Group classifies its investments in financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

FRS 32(60)
FRS 39(45)
FRS 39(9)

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months after the balance sheet date.

FRS 39(9)
FRS 39(45)

FRS 1(57,59)

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except those maturing more than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables on the balance sheet (Note 2.13).

FRS 39(9)
FRS 39(45)

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group's held-to-maturity investments include investments in fixed and variable rate corporate bonds.

FRS 39(9)
FRS 39(45)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

FRS 39(9)
FRS 39(45)

(b) Recognition and derecognition

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

FRS 39(38)

(c) Initial measurement

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

FRS 39(43)

(d) Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

FRS 39(46)

Realised and unrealised gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” investment category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in the fair value reserve within equity. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the fair value reserve within equity are included in the income statement.

FRS 39(55)

(e) Determination of fair value

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer’s specific circumstances.

FRS 39(AG72)
FRS 39(AG73)
FRS 39(AG74)**(f) Impairment**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from the fair value reserve within equity and recognised in the income statement. Impairment losses recognised in the income statement on equity investments are not reversed through the income statement, until the equity investments are disposed of.

FRS 39(58)
FRS 39(67)
FRS 39(68)

FRS 39(69)

2.13 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the allowance is recognised in the income statement.

FRS 39(46)(a)
FRS 32(60)
FRS 39(59)

Trade receivables that are factored out to banks and other financial institutions with recourse to the Group are not derecognised until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions are recorded as borrowings. Any fee incurred to effect factoring is net-off against borrowings and taken to the income statement over the period of factoring using the effective interest method.

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2.14 Borrowings

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method.

FRS 32(60)(b)
FRS 39(43)
FRS 39(47)

Borrowings which are due to be settled within twelve months after the balance sheet date are included in current borrowings in the balance sheet even though the original term was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the balance sheet date and before the financial statements are authorised for issue. Other borrowings due to be settled more than twelve months after the balance sheet date are included in non-current borrowings in the balance sheet.

FRS 1(60)

(b) Redeemable preference shares¹⁷

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are taken to the income statement as finance expense.

FRS 32(60)(b)
FRS 32(18)

(c) Convertible bonds

When convertible bonds are issued, the fair value of the liability portion is determined using a market interest rate for an equivalent non-convertible bond; this amount is recorded as a non-current liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in shareholders' equity. The carrying amount of the conversion option is not changed in subsequent periods.

FRS 32(60)(b)
FRS 32(18,28)

FRS 32(AG31)

When a conversion option is exercised, the carrying amount of the conversion option will be taken to share capital. When the conversion option is allowed to lapse, the carrying amount of the conversion option will be taken to retained earnings.

2.15 Trade payables

Trade payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest method.

FRS 32(60)(b)

2.16 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (Fair value hedge); (2) hedges of highly probable forecast transactions (Cash flow hedge); or (3) hedges of net investments in foreign operations (Net investment hedge).

FRS 39(88)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

FRS 32(56,58)

Notes to the Financial Statements

for the financial year ended 31 December 2005

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

FRS 39(89)

The Group has entered into forward foreign exchange contracts that are fair value hedges for foreign currency denominated receivables and payables. These derivatives qualify for hedge accounting.

(b) Cash flow hedge

The Group has entered into interest rate swaps that are cash flow hedges for the Group's exposure to interest rate risk on its borrowings. These contracts entitle the Group to receive interest at floating rates on notional principal amounts and oblige the Group to pay interest at fixed rates on the same notional principal amounts, thus allowing the Group to raise non-current borrowings at floating rates and swap them into fixed rates that are lower than those available if it borrowed at fixed rates directly.

The effective portion of changes in the fair value of these interest rate swaps are recognised in the hedging reserve within equity and transferred to the income statement in the periods when the interest expense on the borrowings are recognised in the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

FRS 39(95)

The Group also entered into foreign currency contracts to hedge anticipated sales and purchases¹⁸. These contracts do not qualify for hedge accounting and consequently, the changes in fair values of these contracts are included in the income statement in the period it arises (Note 2.16(d)).

(c) Net investment hedge

The Group has foreign currency borrowings that qualify as net investment hedge in foreign operations. These hedging instruments are accounted for similarly to cash flow hedges. Any gain or loss on the borrowings relating to the effective portion of the hedge is recognised in the currency translation reserve within equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in the currency translation reserve within equity are included in the income statement when the foreign operation is disposed of.

FRS 39(102)

(d) Derivatives that do not qualify for hedge accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

2.17 Fair value estimation

The fair value of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flow, discounted at actively quoted interest rates. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

FRS 32(92)
FRS 39(AG72)
FRS 39(AG73)

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

FRS 39(AG74)

The carrying amount of current receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

2.18 Leases**(1) When a group company is the lessee:****Finance leases**

Leases of assets in which the Group assumes substantially the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is taken to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

FRS 32(60)(b)

FRS 17(4)
FRS 17(20)
FRS 17(25)**Operating leases**

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the period of the lease.

FRS 17(4)

FRS 17(33)
INT FRS 15(5)

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(2) When a group company is the lessor:**Finance leases**

FRS 32(60)(b)

Where assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the lease term using the net investment method, which reflects a constant periodic rate of return.

FRS 17(36)

FRS 17(39)

Operating leases

Assets leased out under operating leases are included in investment properties and are stated at revalued amounts and not depreciated. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

FRS 17(53)
FRS 17(50)
INT FRS 15(4)**2.19 Research costs**

Research costs are recognised as an expense when incurred.

FRS 38(54)

2.20 Inventories¹⁸

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis. The cost of finished goods and work-in-progress comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but exclude borrowing costs. The net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

FRS 2(9)
FRS 2(36)(a)
FRS 2(10)FRS 23(7)
FRS 2(6)**2.21 Deferred income taxes**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

FRS 12(15)

FRS 12(47)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

FRS 12(24,34)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

FRS 12(39,44)

Notes to the Financial Statements

for the financial year ended 31 December 2005

2.22 Provisions for other liabilities and charges

Provisions for asset dismantlement, removal or restoration, warranty, restructuring and legal claims are recognised when the Group has a legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

FRS 37(14)

The Group recognises the estimated liability to repair or replace products still under warranty at the balance sheet date. This provision is calculated based on past historical experience of the level of repairs and replacements.

FRS 37 App(c)
Eg. 1

The Group recognises the estimated costs of dismantlement, removal or restoration of items of property, plant and equipment arising from the acquisition or use of assets (Note 2.4(a)(iii)). This provision is estimated based on the best estimate of the expenditure required to settle the obligation, taking into consideration time value.

FRS 37(42)

Changes in the estimated timing or amount of the expenditure or discount rate is adjusted against the cost of the related property, plant and equipment unless the decrease in the liability exceeds the carrying amount of the asset or the asset has reach the end of its useful life. In such cases, the excess of the decrease over the carrying amount of the asset or the changes in the liability is recognised in profit or loss immediately.

INT FRS 101(5)

2.23 Employee benefits

(a) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund, and will have no legal or constructive obligation to pay further contributions if any of the funds do not hold sufficient assets to pay all employee benefits relating to employee services in the current and preceding financial years. The Group's contribution to defined contribution plans are recognised in the financial year to which they relate.

FRS 19(7)

FRS 19(44)

(b) Employee leave entitlement

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

FRS 19(11)

FRS 19(128)

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense in the income statement with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets), on the date of grant. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable on vesting date. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable on vesting date. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

FRS 102(2)(a)
FRS 102(7,8)

FRS 102(19)

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

Notes to the Financial Statements

for the financial year ended 31 December 2005

(d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

FRS 19(133)

FRS 19(134)

FRS 19(139)

2.24 Currency translation

(a) Functional and presentation currency^{20,21,22}

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in Singapore Dollars, which is the Company’s functional and presentation currency.

FRS 21(8)

FRS 1(46)(d)

(b) Transactions and balances

Transactions in a currency other than the functional currency (“foreign currency”) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for currency translation differences on net investment in foreign entities and borrowings and other currency instruments qualifying as net investment hedges for foreign operations in the consolidated financial statements (see Note 2.24(d)).

FRS 21(21)

FRS 21(28)

FRS 21(32)

FRS 39(102)

Currency translation differences on non-monetary items, such as equity investments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Currency translation differences on non-monetary items, such as equity investments classified as available-for-sale financial assets, are included in the fair value reserve within equity.

FRS 21(30)

(c) Translation of Group entities’ financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

FRS 21(39)

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- (ii) Income and expenses for each income statement are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and
- (iii) All resulting exchange differences are taken to the foreign currency translation reserve within equity.

FRS 1(76)(b)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after 1 January 2005 are treated as assets and liabilities of the foreign entity and translated at the closing rate. For acquisitions prior to 1 January 2005, the exchange rates at the dates of acquisition were used.

FRS 21(47)

Notes to the Financial Statements

for the financial year ended 31 December 2005

(d) Consolidation adjustments

On consolidation, currency translation differences arising from the net investment in foreign entities and borrowings and other currency instruments designated as hedges of such investments are taken to the foreign currency translation reserve. When a foreign operation is disposed of, such currency translation differences are recognised in the income statement as part of the gain or loss on disposal.

FRS 21(32)

2.25 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

FRS 14(9)

2.26 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with financial institutions and bank overdrafts. Bank overdrafts are included in borrowings on the balance sheet.

FRS 7(45)

2.27 Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (Note 2.14(b))¹⁷.

FRS 32(18)(a)
FRS 32(60)(b)

Incremental costs directly attributable to the issuance of new equity instruments are taken to equity as a deduction, net of tax, from the proceeds.

FRS 32(35)

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently disposed or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders. Realised gain or loss on disposal or reissue of Treasury shares are included in retained profits of the Company.

FRS 32(33)

2.28 Dividend

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

FRS 10(12)
FRS 32(35)

2.29 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

FRS 105(6,15)

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale and

FRS 105(32)

- (a) represents a separate major line of business or geographical area of operations; or
- (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- (c) is a subsidiary acquired exclusively with a view to resale.

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Significant accounting policies

Disclosure of accounting policies

1. In deciding whether a particular accounting policy should be disclosed, management considers whether disclosure would assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Disclosure of particular accounting policies is especially useful to users when those policies are selected from alternatives allowed in Standards and Interpretations. An example is disclosure of whether a venturer recognises its interest in a jointly controlled entity using proportionate consolidation or the equity method (see FRS 31 *Interests in Joint Ventures*). Some Standards specifically require disclosure of particular accounting policies, including choices made by management between different policies they allow. For example, FRS 16 requires disclosure of the measurement bases used for classes of property, plant and equipment. FRS 23 *Borrowing Costs* requires disclosure of whether borrowing costs are recognised immediately as an expense or capitalised as part of the cost of qualifying assets.
2. An accounting policy may be significant because of the nature of the entity's operations even if amounts shown for current and prior periods are not material. Omission or misstatement of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement, taking into consideration the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

FRS 1(110)

FRS 1 (112)

Basis of preparation

3. Compliance with FRS

Singapore-incorporated companies are required by law to prepare financial statements (for financial periods beginning on or after 1 January 2003) that are in compliance with Singapore Financial Reporting Standards ("FRS"). FRS are issued by the Council on Corporate Disclosure and Governance ("CCDG").

CA 201(3)
SGX 1207(5)(d)

Under the Companies Act, Singapore-incorporated companies need not comply with any requirements of the FRS if they have obtained approval of the Registrar for such non-compliance. In the rare circumstances where the financial statements prepared in accordance with FRS do not present true and fair view of the financial position or results of companies, non-compliance is allowed to the extent that non-compliance is necessary to give a true and fair view. In such cases, a statement by the auditors agreeing to such non-compliance, the particulars of the non-compliance and the reasons, and its effect shall be included in the accounts.

CA 201(14)
CA 201(14A)
FRS 1(13-22)CA 201(14B)
CA 207(2)(aa)
SGX 1207(5)(e)

4. Use of other accounting standards for listed companies

The Minister is allowed to substitute other accounting standards for FRS.

CA 201(14C)

Under the Companies (Accounting Standards for Listed Companies) Order 2003, if a Singapore-incorporated listed company on the Singapore Exchange Securities Trading Limited ("SGX-ST") is also listed on a foreign exchange that requires the company to comply with accounting standards other than FRS, the company shall apply the alternative accounting standards for their financial statements for financial periods commencing on or after 1 January 2003. This is provided that the alternative accounting standards are accounting standards approved by SGX-ST and the company has notified the Registrar of its intention. At present, the foreign accounting standards approved by SGX-ST are International Financial Reporting Standards ("IFRS") and United States Generally Accepted Accounting Principles ("US GAAP").

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

5. Early adoption of revised or new FRS

When the company early adopts any revised or new FRS and that early adoption has a material effect on the current period or any prior period presented, or may have a material effect in subsequent periods, the following disclosures should be made:

FRS 8(28)

- (a) the reasons for the change;
- (b) the amount of the adjustment recognised in net profit or loss in the current period; and
- (c) the amount of the adjustment included in each period for which pro forma information is presented and the amount of the adjustment relating to periods prior to those included in the financial statements. If it is impracticable to present pro forma information, this fact should be disclosed.

Basis of consolidation

6. A parent need not present consolidated financial statements if and only if:

- (a) the parent is itself a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the parent not presenting consolidated financial statements;
- (b) the parent's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- (c) the parent did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and
- (d) the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use.

FRS 27(10)

Such a parent should disclose (i) the fact that the financial statements are separate financial statements; (ii) that the exemption from consolidation has been used; (iii) the name and country of incorporation or residence of the entity whose consolidated financial statements have been produced for public use; and the address where those consolidated financial statements are obtainable; (iv) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and (v) a description of the method used to account for the investments listed under (iv). The disclosure could be as follows:

FRS 27(41)

"These financial statements are separate financial statements of [Company name]. The Company is exempted from the preparation of consolidated financial statements as the Company is [a wholly-owned subsidiary of Merlion Limited, a Singapore-incorporated company which produces consolidated financial statements available for public use]. The significant subsidiaries of the Company and the basis on which the subsidiaries are accounted for is disclosed in Note [] and [] respectively. The registered office of Merlion Limited is as follows: 320 Pier Street, #17-00 Singapore 049900."

Non-uniform accounting policies

7. Consolidated financial statements should be prepared using uniform accounting policies for transactions and other events in similar circumstances.

FRS 27(28)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Group accounting

8. Under the proposed amendments to FRS 27 *Consolidated and Separate Financial Statements*, changes in the Group's ownership interest in a subsidiary after control is obtained that do not result in a loss of control is accounted for as transactions between equity holders in their capacity as equity holders. Hence, no gain or loss shall be recognised in profit or loss on such changes. The current version of FRS 27 is silent on the accounting treatment of such transactions.

ED FRS 27(30A)

9. The following disclosure is suggested if the accounting treatment in the proposed changes to FRS 27 is adopted:

Changes in the Group's ownership interest in a subsidiary after control is obtained that do not result in a loss of control are accounted for by adjusting the carrying amount of minority interest to reflect the change in the Group's interest in the subsidiary's net assets. The difference between the amount of adjustment to minority interest and the fair value of the consideration paid or received, if any, is brought to retained earnings⁷.

If the Group's ownership interest in a subsidiary changes after control is obtained with resultant loss of control, any resulting gain or loss is brought to the income statement. The gain or loss is measured as the difference between:

- (i) the aggregate of the fair value of the proceeds, if any, from the transaction or event that resulted in the loss of control and the fair value of any investment remaining in the former subsidiary at the date control is lost; and*
- (ii) the aggregate of the parent's interest in the carrying amount in the consolidated financial statements of the former subsidiary's net assets immediately before control is lost, including the parent's share of gains or losses related to the former subsidiary recognised previously in retained earnings.*

The minorities' share of the carrying amount of the net assets of the former subsidiary immediately before control is lost is derecognised at the date control is lost with a corresponding derecognition of the carrying amount of minority interest. No gain or loss is recognised on derecognition of the minority interest.

Joint ventures

10. Jointly-controlled entities may also be consistently accounted for using the equity method. If so, the accounting method described in Note 2.3(b) can be considered.

FRS 31(38)

Revaluation of property, plant and equipment

11. Revaluations are required to be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. The revaluation surplus from one property should not be offset against the revaluation loss of another property.

FRS 16(31)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Development properties

12. If the Company is in the business of developing properties for the purpose of sale, of which some have been sold before completion, the following disclosure is recommended:

"Development properties are properties being developed for future sale.

Unsold development properties

Development properties that are unsold, are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less cost to complete development and selling expenses.

Sold development properties

Revenue and cost on development properties that have been sold are recognised using the percentage of completion method. The stage of completion is measured by reference to the development costs incurred to date to the estimated total costs for the property. When it is probable that the total development costs will exceed the total revenue, the expected loss is recognised as an expense immediately.

The aggregated costs incurred and the profit/loss recognised in each development property that has been sold are compared against progress billings up to the financial year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on development projects, under trade and other receivables. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on development projects, under trade and other payables."

Goodwill or "negative goodwill"

13. Goodwill on acquisition prior to annual periods commencing 1 October 2000 were allowed to be adjusted against shareholders' equity. Such adjustments may be against any reserve of the Group or may be a separately presented component within equity.
14. On adoption of FRS 103, "negative goodwill" at the date of transition is adjusted directly against retained earnings in accordance with FRS 103, paragraph 81.

Investment properties

15. Under FRS 25 *Accounting for Investments*, the term "same investment" can be interpreted as "same category of investment(s)" and this latter phrase can then be used, if more appropriate.
16. The amount relating to the disposed investment property in revaluation reserve may alternatively be transferred to retained earnings. The choice of transferring to income statement or retained earnings should be disclosed appropriately and applied consistently.

FRS 25 Foreword

FRS 25(33)

Redeemable preference shares

17. Preference shares which are redeemable on a specific date or at the option of the shareholder, or which carry non-discretionary dividend obligations, should be classified as liabilities. The dividends on these preference shares are taken to the income statement as interest expense. Non-redeemable preference shares with discretionary dividends should be classified as equity.

FRS 32(15)
FRS 32(18)(a)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Cash flow hedges / Inventories

18. If hedges for purchase and sale of inventory qualify for hedge accounting, the cost of inventories should include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials. The suggested accounting policy in such a scenario is as follows:

FRS 39(98)(b)

Cash flow hedges

.... The Group enters into foreign currency forward contracts to hedge its highly probable forecasted purchases and sales. Changes in fair values of these contracts are accumulated in the hedging reserve within equity and subsequently included in the cost of the purchases and sales.

Inventories

.... Cost of inventories includes transfer from equity any gains/losses on qualifying cash flow hedges relating to purchases of raw materials."

Employee benefits

19. Pension obligation is mandatory in some countries (e.g. Indonesia). Disclosures in relation to pensions (a defined benefit plan) have to be considered in such cases.

Functional and presentation currency

20. Where a non-S\$ functional or presentation currency is used in the primary statements and notes to the financial statements of Singapore-incorporated companies, it is recommended as a best practice to prominently denote this fact.

21. Where there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and reason for the change in the functional currency should be disclosed.

FRS 21(54)

22. When the financial statements are presented in a currency different from the company's functional currency, the following are required to be disclosed:

FRS 21(53)

- (i) the functional currency; and
- (ii) the reason for using a different presentation currency.

Government grants

23. Where the Company has received government grants, the following accounting policy should be considered:

FRS 20(39)(a)

"Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with attached conditions. Government grants relating to costs, are deferred and taken to the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to assets, are included in non-current liabilities as other liabilities and are taken to the income statement on a straight-line basis over the expected useful lives of the related assets."

FRS 20(7)

FRS 20(12)

FRS 20(24)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Other matters

24. The illustrative accounting policies may include items which are not applicable to a particular reporting entity. For example, if the reporting entity does not receive any Government Grants, it is neither required to nor prohibited from disclosing the accounting policy for Government Grants. However, the reporting entity should include and describe specific accounting policies that are necessary for a proper understanding of the financial statements (see Guidance Note 3).
25. When preparing financial statements, management should make an assessment of a company's ability to continue as a going concern. Financial statements should be prepared on a going concern basis unless management either intends to liquidate the company or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions which may cast significant doubt upon the company's ability to continue as a going concern, those uncertainties should be disclosed. When the financial statements are not prepared on a going concern basis, that fact should be disclosed, together with the basis on which the financial statements are prepared and the reason why the company is not considered to be a going concern.
26. A company should not prepare its financial statements on a going concern basis if management determines after the balance sheet date that it either intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so.

FRS 1(23)

FRS 10(14)

Notes to the Financial Statements

for the financial year ended 31 December 2005

3. Effects on financial statements on adoption of new or revised FRS

FRS 8(28)(c)

The effects on adoption of the following FRS in 2005 are set out below:

3.1 FRS 1 (revised 2004) *Presentation of Financial Statements*

Previously, borrowings for which the Group did not have an unconditional right to defer settlement for at least twelve months after the balance sheet date were classified as non-current liabilities as the Group reached an agreement with the lender to reschedule the payment on a long-term basis after the balance sheet date and before the financial statements were authorised for issue. FRS 1 (revised 2004) requires these borrowings to be classified as current liabilities instead (Note 2.14(a)).

FRS 1(60)

The change in classification was effected retrospectively and consequently resulted in a reclassification of non-current liabilities to current liabilities for previously reported balances as at 31 December 2004 as follows:

	Group \$'000	Company \$'000
(Decrease)/increase in:		
Non-current liabilities	(2,500)	(75)
Current liabilities	2,500	75

The effect on the balance sheets at 31 December 2005 is set out in Notes 3.9(a) and (c).

3.2 FRS 16 (revised 2004) *Property, Plant and Equipment*

Depreciable amount

Previously, in accordance with the requirements of FRS 16 (now superseded by FRS 16 (revised 2004)), residual values were estimated only at the date of acquisition and not subsequently increased for changes in price.

The Group has re-measured the residual value of its property, plant and equipment on 1 January 2005 in accordance with the requirements of FRS 16 (revised 2004) which requires the re-measurement of the residual value of an item of property, plant and equipment at least at each financial year end (Note 2.4(b)). This change did not materially affect the financial statements for the year ended 31 December 2005.

FRS 16(51)

3.3 FRS 21 (revised 2004) The Effects of Changes in Foreign Exchange Rates

FRS 8(28)(c)

(a) Translation differences on loans to subsidiaries

Previously, translation differences on loans from the Company to its subsidiaries which form part of the Company's net investment in the subsidiaries were included in the currency translation reserve of the Company. FRS 21 (revised 2004) requires these exchange differences of the Company to be recognised in the income statement of the Company (Note 2.24(b)).

FRS 21(32)

This change was effected retrospectively and consequently affected the following previously reported balances as at 31 December 2004:

	Company \$'000
Increase/(decrease) in:	
Currency translation reserve (Note 40(b)(iv))	235
Retained earnings	<u>(235)</u>

The effect on the balance sheet of the Company as at 31 December 2005 is set out in Note 3.9(c).

This change has no impact on the Group's financial statements.

(b) Acquisition of foreign operations

Previously, goodwill and fair value adjustments arising on the acquisition of a foreign entity were treated as assets and liabilities of the acquirer and expressed in the functional currency of the acquirer. FRS 21 (revised 2004) treats these goodwill and fair value adjustments as assets and liabilities of the foreign entity (Note 2.24(c)) for the acquisition from financial year commencing 1 January 2005.

FRS 21(47)

This change was effected prospectively from 1 January 2005 and the effects on the balance sheet as at 31 December 2005 and income statement for the year ended 31 December 2005 are set out in Notes 3.9(a) and 3.9(b) respectively.

3.4 FRS 27 (revised 2004) Consolidated and Separate Financial Statements

Previously, there was no requirement for the presentation of minority interests within equity. FRS 27 (revised 2004) requires minority interests to be presented with equity of the Group retrospectively.

FRS 27(33)

3.5 FRS 39 (revised 2004) Financial Instruments: Recognition and Measurement and FRS 32 (revised 2004) Financial Instruments: Disclosure and Presentation**(a) Classification and consequential accounting for financial assets and financial liabilities**

- (i) Previously, the Group's equity investments which were intended for sale in the short term were stated at the lower of cost and market value on an aggregated portfolio basis, with changes in market value included in the income statement. In accordance with FRS 39 (revised 2004), these investments are now classified in the "financial assets at fair value through profit and loss" category and are initially recognised at fair value and subsequently re-measured to fair value at the balance sheet date with all gains and losses recognised in income statement in the period in which the change in fair value arises (Note 2.12).

FRS 39(9)
FRS 39(45)
FRS 39(55)(a)

This change was effected prospectively from 1 January 2005 and consequently affected the following balance sheet items as at 1 January 2005.

	Group \$'000
Increase/(decrease) in:	
Financial assets at fair value through profit and loss (Note 19)	827
Deferred income tax liabilities	165
Retained earnings	<u>662</u>

The effects on the balance sheet as at 31 December 2005 and income statement for the year ended 31 December 2005 are set out in Notes 3.9(a) and 3.9(b) respectively.

- (ii) Previously, the Group's investments in fixed and variable rate bonds and equity interest of other companies were stated at cost less provision for diminution in value that was other than temporary, which was charged to the income statement when it arose. Any reversal of the provision was also included in the income statement.

In accordance with FRS 39 (revised 2004), the investments in fixed and variable rate bonds are now classified in the "held-to-maturity investments" category and are initially recognised at fair value plus transaction costs and subsequently accounted for at amortised cost using the effective interest method, less accumulated impairment loss (Note 2.12(c)).

FRS 39(9)
FRS 39(45)
FRS 39(46)(b)
FRS 39(56)

This change did not materially affect the financial statements for the year ended 31 December 2005.

Notes to the Financial Statements

for the financial year ended 31 December 2005

- (iii) Under FRS 39 (revised 2004), the investments in equity interests of other companies are classified as “available-for-sale financial assets” and are initially recognised at fair value and subsequently measured at fair values at the balance sheet date with all gains and losses other than impairment loss taken to equity. Impairment losses are taken to the income statement in the period it arises. On disposal, gains and losses previously taken to equity are included in the income statement (Notes 2.12(c), (d) and (f)).

FRS 39(9)
FRS 39(45)
FRS 39(55)(b)

This change was effected prospectively from 1 January 2005 and consequently affected the following balance sheet items as at 1 January 2005.

	Group \$'000	Company \$'000
Increase/(decrease) in:		
Available-for-sale financial assets (Note 17)		
- Current assets	25	–
- Non-current assets	100	127
	<u>125</u>	<u>127</u>
Fair value reserve (Note 40(b)(ii))	<u>125</u>	<u>127</u>

The effects on the balance sheets as at 31 December 2005 and income statement for the year ended 31 December 2005 are set out in Notes 3.9(a), 3.9(b) and 3.9(c).

- (iv) Previously, the Group's trade and other payables and bank borrowings were stated at cost. Bank borrowings were stated at the proceeds received and transaction costs on borrowings were classified as deferred charges and amortised on a straight-line basis over the period of the borrowings. These financial liabilities are not held for trading and have not been designated as fair value through profit or loss at inception on adoption of FRS 39 (revised 2004). In accordance with FRS 39 (revised 2004), they are initially recognised at fair value less transaction costs and subsequently accounted for at amortised cost using the effective interest method (Note 2.14 and Note 2.15) .

FRS 39(43)
FRS 39(47)

This change did not materially affect the financial statements for the year ended 31 December 2005.

(b) Impairment and uncollectibility of financial assets

Previously, the Group maintained a general provision against its trade and other receivables for risks that were not specifically identified to any customer. Investments in equity interests and bonds were reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. On adoption of FRS 39 (revised 2004), the Group is now required to assess at each balance sheet date if there is any objective evidence that a financial asset or group of financial assets is impaired (Note 2.12). Impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables (Note 2.13).

This change did not materially affect the financial statements for the year ended 31 December 2005.

FRS 39(58)

(c) Fair values of financial assets and liabilities

Previously, the Group used the last transacted prices of quoted financial assets or liabilities as the market values. Fair values of unquoted financial assets and liabilities were measured based on last transacted prices of recent arm's length transactions.

Fair value estimation is now carried out in accordance with guidance set out in FRS 39 (revised 2004) (Note 2.17).

FRS 32(92)
FRS 39(AG72-AG74)

This change did not materially affect the financial statements for the year ended 31 December 2005.

(d) Accounting for derivative financial instruments and hedging activities**(i) Fair value hedge**

The Group enters into forward currency exchange contracts to hedge its exposure to currency risks arising from non-functional currency denominated receivables and payables. Previously, the notional principal amounts of the forward currency exchange contracts were recorded as off-balance sheet items. The contracted rates of the forward currency exchange contracts were used to translate the hedged currency monetary assets and liabilities. The fair values of the forward foreign exchange contracts were not separately recognised in the financial statements.

In accordance with FRS 39 (revised 2004), these forward currency exchange contracts qualify for fair value hedge accounting and they are initially recognised at fair value on the date the contract is entered into and changes in the fair value are recorded in the income statement together with any changes in the fair value of the hedged non-functional currency denominated receivables and payables that are attributable to the hedged currency risks (Note 2.16(a)).

FRS 39(89)

(ii) Cash flow hedge

The Group enters into interest rate swaps to hedge the Group's exposure to interest rate risk on its borrowings. Under the interest rate swaps, the Group agreed with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed rate and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Previously, the above-mentioned difference was taken to the income statement on an accrual basis. The excess of fixed rate interest payables over floating rate interest receivables was recorded as current payables; the excess of floating rate interest receivables over fixed rate interest payables was recorded as current receivables.

In accordance with FRS 39 (revised 2004), the effective portion of changes in the fair value of the interest rate swaps that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (Note 2.16(b)).

FRS 39(95)

Notes to the Financial Statements

for the financial year ended 31 December 2005

The changes described in paragraphs (i) and (ii) above were effected prospectively from 1 January 2005 and consequently affected the following balance sheet items as at 1 January 2005:

	Group \$'000	Company \$'000
Increase/(decrease) in:		
Derivative financial instruments (Note 18)		
- Current assets	350	32
- Non-current assets	50	11
(Increase)/decrease in:		
Derivative financial instruments (Note 18)		
- Current liabilities	(100)	(5)
- Non-current liabilities	(20)	(1)
	280	37
Increase/(decrease) in		
Deferred income tax liabilities	56	8
Retained earnings	200	12
Hedging reserve (Note 40(b)(iii))	24	17

The effects on the balance sheet as at 31 December 2005 and income statement for the year ended 31 December 2005 are set out in Notes 3.9(a), 3.9(b) and 3.9(c).

(iii) Net investment hedge

The Group has foreign currency borrowings that hedge its exposure to investments in foreign operations. Previously, the translation difference on these borrowings were included in the currency translation reserve and taken to the income statement when the investments were disposed of.

In accordance with FRS 39 (revised 2004), any gain or loss on the borrowings relating to the effective portion of the hedge is recognised in the currency translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement (Note 2.16(c)).

FRS 39(102)

The change did not materially affect the financial statements for the year ended 31 December 2005.

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for the financial year ended 31 December 2005

3.6 FRS 102 Share-based Payments

Previously, the provision of share options to employees did not result in any charge in the income statement. The Group and Company recognised an increase in share capital and share premium when the options were exercised. On adoption of FRS 102, an expense is recognised in the income statement for share options issued with a corresponding increase in the share option reserve (Note 2.23(c)).

FRS 102(7,8)

This change was effected retrospectively for share options granted after 22 November 2002 and not yet vested by 1 January 2005. Consequently, the following previously reported balances as at/for the year ended 31 December 2004 were adjusted.

	Group \$'000	Company \$'000
Increase/(decrease) in:		
Retained earnings	(622)	(622)
Share option reserve (Note 40(b)(i))	<u>622</u>	<u>622</u>
Cost of sales	110	
Distribution and marketing expenses	206	
Administrative expenses	306	
Total profit	(622)	
Basic earnings per share (\$ per share)	(0.03)	
Diluted earnings per share (\$ per share)	<u>(0.03)</u>	

The effects on the balance sheet as at 31 December 2005 and income statement for the year ended 31 December 2005 are set out in Notes 3.9(a), 3.9(b) and 3.9(c).

3.7 FRS 103 Business Combinations, FRS 36 (revised 2004) Impairment of Assets and FRS 38 (revised 2004) Intangible Assets

(i) Goodwill¹

Until 31 December 2004, goodwill was amortised on a straight line basis over a period ranging from 5 to 15 years; and at each balance sheet date, the Group assessed if there was any indication of impairment of the cash-generating-unit in which the goodwill is attached to. In accordance with FRS 103 and FRS 36 (revised 2004), the Group ceased amortisation of goodwill from 1 January 2005 and accumulated amortisation as at 31 December 2004 amounting to \$2,200,000 has been eliminated with a corresponding decrease in the cost of goodwill (Note 31(a)). Goodwill is thereafter tested at least annually for impairment (Note 2.11).

FRS 103(79)

The effects on the balance sheet as at 31 December 2005 and income statement for the year ended 31 December 2005 are set out in Notes 3.9(a) and 3.9(b) respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2005

(ii) Accounting for acquisitions in 2005

FRS 22 (that had been superseded by FRS 103) did not require the recognition of contingent liabilities assumed in a business combination but this is required in FRS 103 (Note 2.3(a)). In addition, FRS 22 allowed the recognition of liabilities for terminating or reducing the activities of the acquiree if certain conditions are met but FRS 103 allows these liabilities to be recognised only if the acquiree, at the acquisition date, had an existing obligation in accordance with FRS 37. Previously, FRS 38 (superseded by FRS 38 (revised 2004)) did not include the presumption that future economic benefit is always satisfied for an intangible asset acquired as part of a business combination. This presumption is included in FRS 38 (revised 2004).

FRS 103(36)

FRS 103(41)(a)
FRS 37(72-83)

FRS 38(33)

The change did not materially affect the financial statements for the year ended 31 December 2005.

3.8 FRS 105 Non-current Assets Held for Sale and Discontinued Operations

Previously, non-current assets (or disposal groups) held for sale were neither classified nor presented as current assets or liabilities. There were no differences in the measurement of non-current assets (or disposal groups) held for sale and those for continuing use. With the adoption of FRS 105, non-current assets (or disposal groups) are classified as current assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amounts are recovered principally through a sale transaction rather than through continuing use.

FRS 105(6)
FRS 105(15)

This change was accounted for prospectively from 1 January 2005 and the effect on balance sheet as at 31 December 2005 and income statement for the year ended 31 December 2005 are set out in Notes 3.9(a) and 3.9(b) respectively.

Notes to the Financial Statements

for the financial year ended 31 December 2005

3.9 Summary of effects on adoption of new or revised FRS on:

(a) Consolidated Balance Sheet as at 31 December 2005

Description of change	Increase/ (Decrease) \$'000						TOTAL	FRS 8(28)(f)
	FRS 1 (revised 2004)	FRS 21 (revised 2004)	FRS 39 (revised 2004)	FRS 102	FRS 103	FRS 105		
Consolidated balance sheet items at 31 December 2005	Note 3.1	Note 3.3(b)	Note 3.5	Note 3.6	Note 3.7	Note 3.8		
Fair value reserve	-	-	573	-	-	-	573	
Currency translation reserve	-	141	-	-	-	-	141	
Hedging reserve	-	-	88	-	-	-	88	
Retained earnings	-	-	1,063	(1,312)	650	(44)	357	
Share option reserve	-	-	-	1,312	-	-	1,312	
Available-for-sale (Non-current)	-	-	696	-	-	-	696	
Derivative financial instruments (Non-current)	-	-	18	-	-	-	18	
Held-to-maturity financial assets	-	-	96	-	-	-	96	
Property, plant and equipment	-	-	-	-	-	(32)	(32)	
Intangible assets	-	141	-	-	650	(12)	779	
Available-for-sale (Current)	-	-	210	-	-	-	210	
Derivative financial instruments (Current)	-	-	128	-	-	-	128	
Financial assets at fair value through profit or loss	-	-	1,295	-	-	-	1,295	
Borrowings (Non-current liabilities)	(1,500)	-	-	-	-	-	(1,500)	
Derivative financial instruments (Non-current liabilities)	-	-	120	-	-	-	120	
Deferred income tax liability	-	-	399	-	-	-	399	
Borrowings (Current liabilities)	1,500	-	-	-	-	-	1,500	
Derivative financial instruments (Current liabilities)	-	-	200	-	-	-	200	

(b) Consolidated income statement for the year ended 31 December 2005

Description of change	Increase / (Decrease) \$'000						TOTAL	FRS 8(28)(f)
	FRS 1 (revised 2004)	FRS 21 (revised 2004)	FRS 39 (revised 2004)	FRS 102	FRS 103	FRS 105		
Consolidated income statement items for year ended 31 December 2005	Note 3.1	Note 3.3(b)	Note 3.5	Note 3.6	Note 3.7	Note 3.8		
Cost of sales	-	-	-	122	-	-	122	
Distribution and marketing expenses	-	-	-	228	-	-	228	
Administrative expenses	-	-	-	340	(650)	73	(237)	
Other gains (net)	-	-	201	-	-	-	201	
Income tax expense	-	-	-	-	-	(29)	(29)	
Total profit	-	-	201	(690)	650	(44)	117	
Basic Earnings Per Share	-	-	(0.008)	(0.029)	0.043	(0.001)	0.005	
Diluted Earnings Per Share	-	-	(0.007)	(0.025)	0.037	(0.001)	0.004	

Notes to the Financial Statements

for the financial year ended 31 December 2005

(c) Company Balance Sheet as at 31 December 2005

Description of change	← Increase / (Decrease) \$'000 →				TOTAL
	FRS 1 (revised 2004)	FRS 21 (revised 2004)	FRS 39 (revised 2004)	FRS 102	
Balance sheet items at 31 December 2005	Note 3.1	Note 3.3	Note 3.5	Note 3.6	
Fair value reserve	-	-	251	-	251
Foreign currency translation reserve	-	100	-	-	100
Hedging reserve	-	-	62	-	62
Retained earnings	-	(100)	190	(1,312)	(1,222)
Share option reserve	-	-	-	1,312	1,312
Available-for-sale (Non-current)	-	-	282	-	282
Derivative financial instruments (Non-current)	-	-	56	-	56
Derivative financial instruments (Current)	-	-	237	-	237
Borrowings (Non-current liabilities)	(75)	-	-	-	(75)
Borrowings (Current liabilities)	75	-	-	-	75
Deferred tax	-	-	72	-	72

FRS 8(28)(f)

Guidance Notes

Effect on financial statements on adoption of new or revised FRS

Effect of adoption of FRS 103 on negative goodwill

1. If the Group has negative goodwill that had been capitalised in the balance sheet, the following disclosure is suggested.

"Negative goodwill

Until 31 December 2004, the excess of fair value of the Group's share of the net identifiable assets acquired over the cost of acquisition ("negative goodwill") for acquisitions between 1 January 2001 and 31 December 2004, was capitalised on the balance sheet and recognised in the income statement as follows:

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is taken to the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary depreciable assets acquired, is taken to the income statement over the remaining average useful life of those assets; negative goodwill in excess of the fair values of those assets is taken to the income statement immediately.

In accordance with the transitional provision of FRS 103, unamortised negative goodwill as at 31 December 2004 was adjusted against retained earnings at 1 January 2005. Any negative goodwill arising on business combinations post 1 January 2005 is taken immediately to the income statement."

FRS 103(81)

Restatement of comparative information

2. When the presentation or classification of items in the financial statements is amended, comparative amounts should be reclassified, unless it is impracticable to do so, to ensure comparability with the current period, and the nature, amount of, and reason for, any reclassification should be disclosed. When it is impracticable to reclassify comparative amounts, an enterprise should disclose the reason for not reclassifying and the nature of the changes that would have been made if amounts were reclassified.

FRS 1(38)

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

FRS 1(116)

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.11. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 31(a)).

FRS 36(10)(b)

If the management's estimated gross margin had been lower by 10%, the carrying values of goodwill would be reduced by \$50,000 and property, plant and equipment would be reduced by \$350,000.

FRS 36(124)

If the management's estimated pre-tax discount rate applied to the discounted cash flows had been raised by 1%, the carrying values of goodwill would be reduced by \$50,000 and property, plant and equipment would be reduced by \$250,000.

If the actual gross margin had been higher or the pre-tax discounted rate lower than management's estimates in the value-in-use calculation, the Group would not be able to reverse the impairment losses of \$4,650,000 recognised during the financial year.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the capital allowances and deductibility of certain expenses during the estimation of the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

If the actual final outcome (on the judgement areas) differs by 10% from management's estimates, the Group would need to:

- increase the income tax liability by \$120,000 and the deferred income tax liability by \$230,000, if unfavourable; or
- decrease the income tax liability by \$110,000 and the deferred income tax liability by \$215,000, if favourable.

(iii) Fair value estimation

FRS 32(92)

The Group holds corporate variable rate notes that are not traded in an active market (Note 17). The Group has used discounted cash flow analysis for these financial assets.

If the discounted rate used in the discounted cash flow analysis had been increased or decreased by 1% from management's estimates, the carrying amount of available-for-sale financial assets would be an estimated \$40,000 lower or \$40,000 higher.

(iv) Construction contracts

The Group recognises contract revenue to the extent of contract costs incurred where it is probable those costs will be recoverable or based on the stage of completion method. The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract.

Significant judgement is required in determining the stage of completion, the extent of the contract cost incurred, the estimated total contract revenue and contract cost, as well as the recoverability of the contracts. Total contract revenue also includes an estimation of the recoverable variation works that are recoverable from the customers. In making the judgement, the Group evaluates by relying on past experience and the work of specialists.

If the estimated total contract revenue or contract costs differ by 10% from management's estimates,

- the Group's revenue and cost of sales will be reduced/increased by \$250,000 and \$120,000 respectively; or
- the Group's revenue and cost of sales will be increased/reduced by \$230,000 and \$110,000 respectively

(b) Critical judgements in applying the entity's accounting policies

FRS 1(113)

(i) Revenue recognition

The Group has recognised revenue amounting to \$950,000 for sales of goods to Electrotech Sdn Bhd in Malaysia during 2005. The buyer has the right to rescind the sale if there is 5% dissatisfaction with the quality of the first 1,000 pieces of furniture sold. The profit recognised for this sale was \$665,000. The Group believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 3%. It is therefore appropriate to recognise revenue on this transaction during 2005. The Group will suffer an estimated loss of \$700,000 in its 2006 financial statements if the sale is cancelled, \$665,000 being the reversal of 2005 profits and \$35,000 of costs connected with returning the stock to the warehouse.

Notes to the Financial Statements

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(ii) Held-to-maturity investments

The Group follows the guidance of FRS 39 (revised 2004) on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in FRS 39 (revised 2004), it will be required to reclassify the whole class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

If the class of held-to-maturity investments is tainted, the fair value would increase by \$98,000, with a corresponding entry in the fair value reserve in shareholders' equity.

(iii) Impairment of available-for-sale financial assets

The Group follows the guidance of FRS 39 (revised 2004) on determining when an investment is other-than-temporary impaired. This determination requires significant judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the assumptions made regarding the duration and extent to which, the fair value is less than its cost, the Group would suffer an additional \$573,000 loss in its 2006 financial statements, being the transfer of the total fair value reserve to the income statement.

Notes to the Financial Statements

for the financial year ended 31 December 2005

5. Revenue and other miscellaneous gains (net)

	The Group		
	2005 \$'000	2004 \$'000	
Sale of goods ¹	172,619	96,854	FRS 18(35)(b)(i)
Construction revenue	29,808	11,527	FRS 11(39)(a)
Rendering of services ¹	7,787	3,979	FRS 18(35)(b)(ii)
Total sales	210,214	112,360	
Other miscellaneous gains/(losses):			
Financial assets at fair value through profit or loss			FRS 32(94)(h)
- Fair value losses	(1,116)	(232)	
- Fair value gains	610	-	
Currency exchange loss (net) ³	(410)	(444)	
Fair value gains on forward contracts not qualifying as hedges	529	-	FRS 32(94)(h)
Effect of hedging using forward contracts	355	407	FRS 32(94)(h)(i)
Interest income	1,180	1,120	FRS 18(35)(b)(iii) FRS 32(94)(h)(j)
Dividend income	2,230	1,400	FRS 18(35)(b)(v)
Rental income from investment property	188	146	FRS 25(49)(b)
Gain on disposal of property, plant and equipment ²	17	8	
Revaluation loss on investment properties (Note 27)	(123)	(10)	
Other miscellaneous gains - net	3,460	2,395	
	213,674	114,755	

Contingent rent is that portion of lease payments that is not fixed in amount but is based on a factor other than the passage of time. Included in the investment property rental income is contingent rent amounting to \$10,000 (2004: \$12,000), which was computed based on the sales achieved by tenants.

FRS 17(4)
FRS 17(56)(b)

Guidance Notes

Revenue and other gains (net)

Revenue from exchange of goods or services

- The amount of revenue arising from exchange of goods or services rendered which are included in each significant category of revenue should be separately disclosed.

FRS 18(35)(b,c)

Other gains

- Other gains arising from disposal of property, plant and equipment, investments and properties should be disclosed when the items are of such size, nature or incidence that their disclosure is relevant to explain the performance of the company for the period. For listed companies, these items are required to be disclosed, regardless of their quantum, in the financial results announcements to SGX-ST.

FRS 1(87)

SGX App 7.2(1)(a)(ii)(j)

Currency exchange gains/(losses) – net

- Currency exchange gains/(losses) arising from operating activity should form part of other gains while those arising from financing activities should form part of finance expense.

Notes to the Financial Statements

for the financial year ended 31 December 2005

6. Expenses by nature¹/Amortisation, depreciation and impairment charges²

(Additional note disclosure when the income statement presents the classification of expenses by function)¹

	The Group		
	2005 \$'000	2004 \$'000	
Raw materials, finished goods and consumables	45,073	23,038	
Amortisation of intangible assets (Note 31(d))	800	1,215	
Depreciation of property, plant and equipment (Note 30)	17,754	9,662	FRS 16(73)(e)(vii)
Impairment loss of goodwill (Note 31(a))	4,650	–	FRS 36(126)(a)
Total depreciation, amortisation and impairment	23,204	10,877	FRS 1(93)
Employee benefits expense (Note 7)	40,090	15,500	FRS 1(93)
Sub-contractor charges	12,400	8,600	
Advertising expense	10,671	7,302	
Rental on operating leases	10,588	8,697	FRS 17(35)(c)
Research expense	473	200	FRS 38(126)
Transportation expense	8,584	6,836	
Other expenses	1,174	542	
Changes in inventories of raw materials, work-in-progress and finished goods	5,828	(2,950)	
Total cost of sales, marketing and distribution costs and administrative expenses	<u>158,085</u>	<u>78,642</u>	

7. Employee benefits

	The Group		
	2005 \$'000	2004 \$'000	
Wages and salaries	28,254	10,879	
Employer's contribution to defined contribution plans including Central Provident Fund ³	9,246	3,717	FRS 19(46)
Termination benefits ⁴	1,600	–	FRS 19(142)
Other long term benefits	300	282	
Share options granted to directors and employees (Notes 39 and 40)	690	622	FRS 102(51)(a)
	<u>40,090</u>	<u>15,500</u>	

Notes to the Financial Statements

for the financial year ended 31 December 2005

8. Other gains (net) - exceptional loss⁵

FRS 1(86,87)

	The Group	
	2005	2004
	\$'000	\$'000
Loss on disposal of a subsidiary	945	–

On 28 June 2005, the Company disposed of its 100% interest in PwC Logistics Pte Ltd ("PwC Logistics") for a cash consideration of \$983,000 (Note 13).

The carrying value of net identifiable assets disposed of (including currency translation difference) amounted to \$1,928,000 at 28 June 2005, resulting in a loss on disposal of \$945,000.

Please refer to Note 43(b) for details on additional consideration receivable in respect of the disposal of PwC Logistics. Please refer to Note 13 for the effect of disposals of the subsidiary on the Group's cash flows.

9. Finance expense

	The Group		
	2005	2004	
	\$'000	\$'000	
Interest expense:			FRS 32(94)(h)(i)
- bank borrowings	(4,638)	(7,797)	
- convertible bonds (Note 34)	(3,083)	–	
- dividend on redeemable preference shares (Note 35)	(1,950)	(1,950)	
- finance lease liabilities	(67)	(62)	
- discount on non-current provision (Note 37(d))	(15)	(15)	
Effect of hedging using interest-rate swaps	102	304	
Net interest expense	(9,651)	(9,520)	FRS 32(94)(h)
Currency exchange gains/(losses) ⁶ - net	2,578	(1,540)	FRS 21(52)(a)
	(7,073)	(11,060)	

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Disclosures relating to Income Statement

Classification of expenses (by function versus by nature)

FRS 1(93)

1. Companies presenting their expenses by function should disclose additional information on the nature of expenses, including depreciation and amortisation expense and staff costs.
2. Companies presenting their expenses by nature need not disclose the items already disclosed on the face of income statement.

Employee benefit expense

3. For Singapore companies, defined contribution plans include contributions to the Central Provident Fund. Some countries (e.g. Indonesia) have local legislations for companies to contribute to Defined Benefit Plans. Accounting for such plans is complicated and disclosures are extensive. Please refer to FRS 19 *Employee Benefits*, paragraphs 48 to 125 for the requirements.
4. Under FRS 1 *Presentation of Financial Statements*, a company is required to disclose the nature and amount of an expense if it is of such size, nature or incidence that its disclosure is relevant to explain the performance of the company for the period. Termination benefits may warrant disclosure in compliance with this requirement. Alternatively, a company should disclose information about termination benefits for key management personnel as required by FRS 24 *Related Party Disclosures*.

FRS 1(86)

FRS 19(142)

FRS 19(143)

Exceptional items

5. Where items of income and expense are of such size, nature or incidence that their disclosure is relevant to explain the performance of the company for the period, the nature and amount of such items should be disclosed separately.

Circumstances which may give rise to the separate disclosure of such items include:

- (a) write-downs of inventories to net realisable value or property, plant and equipment to recoverable amount, as well as the reversal of such write-downs;
- (b) restructuring of the activities of a company and the reversal of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of long-term investments;
- (e) discontinued operations;
- (f) litigation settlements; and
- (g) other reversals of provisions

FRS 1(86)
SGX App7.2(1)(a)(ii)

FRS 1(87)

Currency exchange gains/(losses) - net

6. Currency exchange gains/(losses) arising from operating activity should form part of other gains while those arising from financing activities should form part of finance expense.

Notes to the Financial Statements

for the financial year ended 31 December 2005

10. Income taxes

(a) Income tax expense

	The Group		
	2005	2004	
	\$'000	\$'000	
Tax expense attributable to profit is made up of:			FRS 12(79)
<i>From continuing operations</i>			
Current income tax			FRS 12(80)(a)
- Singapore	9,701	4,398	
- Foreign	4,841	1,852	
Deferred income tax (Note 38)	379	2,635	FRS 12(80)(c)
	14,921	8,885	
<i>From discontinued operations</i>			
Current income tax			
- Foreign	67	320	FRS 12(81)(h)
	14,988	9,205	
<i>From continuing operations</i>			
Under provision in preceding financial years			
- current income tax	-	100	
	14,988	9,305	

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax due to the following:

	The Group		
	2005	2004	
	\$'000	\$'000	
Profit before tax from:			
Continuing operations	47,368	25,098	
Discontinued operations	167	800	
	47,535	25,898	
Tax calculated at a tax rate of 20% ^{1,2} (2004: 20%)	9,507	5,180	
Effects of:			
- Different tax rates in other countries	1,107	480	
- Expenses not deductible for tax purposes	5,422	3,820	
- Income not subject to tax	(978)	(237)	
- Utilisation of previously unrecognised:			
• tax losses	(44)	(23)	
• capital allowances	(26)	(15)	
Tax charge	14,988	9,205	

Notes to the Financial Statements

for the financial year ended 31 December 2005

(b) Movements in current income tax liabilities³

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of financial year	2,846	6,967	325	285
Currency translation differences	84	183	–	–
Income tax paid	(14,517)	(10,974)	(399)	(145)
Tax expense on profit for the current financial year	14,609	6,570	309	185
Under provision in preceding financial years	–	100	–	–
Disposal of a subsidiary (Note 13)	(80)	–	–	–
Balance at end of financial year	<u>2,942</u>	<u>2,846</u>	<u>235</u>	<u>325</u>

Included in the Company's current tax liabilities is an amount of \$32,000 (2004: \$25,000) representing the approximate consideration payable for the transfer of tax losses from a subsidiary to the Company for a claim under the Group relief tax system.⁴

Guidance Notes

Tax

Applicable tax rate(s)

1. In explaining the relationship between tax expense (income) and accounting profit, a company uses an applicable tax rate that provides the most meaningful information to the users of its financial statements. Often, the most meaningful rate is the domestic rate of tax in the country in which the company is domiciled, aggregating the tax rate applied for national taxes with the rates applied for any local taxes which are computed on a substantially similar level of taxable profit (tax loss). However, for a company operating in several jurisdictions, it may be more meaningful to aggregate separate reconciliations prepared using the domestic rate in each individual jurisdiction.
2. An explanation of changes in the applicable tax rate(s) compared to the previous accounting period should be included, where applicable.

FRS 12(85)

FRS 12(81)(d)

Movements in current tax liabilities

3. This disclosure note is voluntary. It is recommended as a good practice.

Payment for the transfer of tax losses under group relief tax system

4. This disclosure note is voluntary. It is recommended as a good practice.

Notes to the Financial Statements

for the financial year ended 31 December 2005

11. Discontinued operations¹ and Disposal group classified as held for sale¹

FRS 105(41)(a,b,d)

Following the approval of the Group's management and shareholders on 31 May 2005 to sell PwC Omikron Sdn Bhd in Malaysia (comprising of the Group's glass business segment), the assets and liabilities related to PwC Omikron Sdn Bhd have been presented as a disposal group held for sale and results from PwC Omikron Sdn Bhd is presented separately on the income statement as "Discontinued operations". The transaction is expected to be completed by April 2006.

An analysis of the results of discontinued operations, and the result recognised on the remeasurement of disposal group is as follows:

FRS 105(33)(b)

	Year ended 31 December 2005 \$'000	Year ended 31 December 2004 ² \$'000	
Revenue	1,200	4,600	
Expenses	<u>(960)</u>	<u>(3,800)</u>	
Profit before tax from discontinued operations	240	800	
Tax	<u>(96)</u>	<u>(320)</u>	FRS 12(81)(h)(ii)
Profit after tax from discontinued operations	144	480	
Pre-tax loss recognised on the remeasurement of disposal group	(73)	–	
Tax	<u>29</u>	<u>–</u>	FRS 12(81)(h)(ii)
After tax loss recognised on the remeasurement of disposal group	(44)	–	
Total profit from discontinued operations	<u>100</u>	<u>480</u>	

The impact of the discontinued operations on the cash flows of the Group is as follows:

	2005 \$'000	2004 \$'000	
Operating cash flows	300	190	FRS 105(33)(c)
Investing cash flows	(103)	(20)	FRS 105(33)(c)
Financing cash flows	<u>(295)</u>	<u>(66)</u>	FRS 105(33)(c)
Total cash flows	<u>(98)</u>	<u>104</u>	

Notes to the Financial Statements

for the financial year ended 31 December 2005

Details of disposal group³ classified as held for sale are as follows:

	2005	
	\$'000	
Property, plant and equipment	1,563	
Intangible assets	100	
Inventory	1,670	
	<u>3,333</u>	
Liabilities directly associated with disposal group classified as held for sale:		FRS 105(38)
Trade and other payables	104	
Other current liabilities	20	
Provisions	96	
	<u>220</u>	

Guidance Notes

Discontinued operations

1. A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

FRS 105(32)

(a) represents a separate major line of business or geographical area of operations,

(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or

(c) is a subsidiary acquired exclusively with a view to resale.

2. An entity shall re-present prior period's results for discontinued operations for the latest financial period.

FRS 105(34)

Non-current assets/disposal group held for sale

3. Non-current assets held for sale (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction, not through continuing use. These assets may be a component of an entity, a disposal group or an individual non-current asset.

FRS 105(6)

Notes to the Financial Statements

for the financial year ended 31 December 2005

12. Earnings Per Share¹

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding² during the financial year.

FRS 33(9)

	Continuing operations		Discontinued operations		Total		
	2005	2004	2005	2004	2005	2004	
Net profit attributable to members of PwC Holdings Ltd (\$'000)	<u>29,928</u>	15,357	<u>100</u>	480	<u>30,028</u>	15,837	FRS 33(70)(a)
Weighted average number of ordinary shares in issue for basic earnings per share ² ('000)	<u>23,454</u>	20,500	<u>23,454</u>	20,500	<u>23,454</u>	20,500	FRS 33(70)(b)
Basic earnings per share (\$ per share)	<u>1.27</u>	0.75	<u>0.01</u>	0.02	<u>1.28</u>	0.77	

(b) Diluted earnings per share

For the purpose of calculating diluted earnings per share, profit attributable to members of the Company and the weighted average number of ordinary shares outstanding are adjusted for the effects of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options.

The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect.

For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The differences are added to the denominator as an issuance of ordinary shares for no consideration. No adjustment is made to earnings (numerator).

Notes to the Financial Statements

for the financial year ended 31 December 2005

Diluted earnings per share for continuing operations and discontinued operations attributable to equity holders of the Company is calculated based on the following data.

	Continuing operations		Discontinued operations		Total		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Net profit attributable to members of PwC Holdings Ltd (\$'000)	29,928	15,357	100	480	30,028	15,837	FRS 33(70)(a)
Interest expense on convertible bonds (net of tax)	2,158	–	–	–	2,158	–	
Net profit used to determine diluted earnings per share	32,086	15,357	100	480	32,186	15,837	FRS 33(70)(a)
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	23,454	20,500	23,454	20,500	23,454	20,500	FRS 33(70)(b)
Adjustments for							
- assumed conversion of convertible bonds	3,030	–	3,030	–	3,030	–	
- share options	1,213	–	1,213	–	1,213	–	
	27,697	20,500	27,697	20,500	27,697	20,500	FRS 33(70)(b)
Diluted earnings per share (\$ per share)	1.16	0.75	*	0.02	1.16	0.77	

*Less than \$0.01

The effect of changes in accounting policies on the basic and diluted earnings per share is set out in Note 3.9(b)⁴.

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Earnings per share

Application of FRS 33

1. The disclosures set out in FRS 33 *Earnings Per Share* are only applicable to companies whose ordinary shares or potential ordinary shares are publicly traded and those companies that are in the process of issuing ordinary shares or potential ordinary shares in public markets.

FRS 33(2)

Treasury Shares

2. Treasury shares purchased or re-issued are considered on a weighted basis in the computation of the number of shares in-issue.

FRS 33(20)

Retrospective adjustments to EPS

3. If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented should be adjusted retrospectively. If these changes occur after the balance sheet date but before the financial statements are authorised for issue, the per share calculations for those and any prior period financial statements presented should be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares be disclosed. In addition, basic and diluted earnings per share of all periods presented should be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.

FRS 33(64)

4. When the Group changes its accounting policies which result in prior year adjustments, for comparative purposes, the basic and diluted earnings per share in prior period should be recalculated.

5. A company is encouraged to describe ordinary share transactions or potential ordinary share transactions, other than capitalisation issues and share splits, which occur after the balance sheet date when they are of such importance that non-disclosure would affect the ability of the users of the financial statements to make proper evaluations and decisions (see FRS 10 *Events After the Balance Sheet Date*). Examples of such transactions include the issuance of shares for cash; the redemption of ordinary shares on issue; the issuance of warrants, options or convertible securities. Earnings per share are not adjusted for such transactions as they do not affect the amount of capital used to produce the net profit or loss for the period.

FRS 33(70)(d),(71)

6. If a company discloses, in addition to basic and diluted earnings per share, per share amounts using a reported component of net profit other than net profit or loss for the period attributable to ordinary shareholders, such amounts should be calculated using the weighted average number of ordinary shares determined in accordance with FRS 33 *Earnings Per Share*. If a component of net profit is used which is not reported as a line item in the income statement, a reconciliation should be provided between the component used and a line item which is reported in the income statement. Basic and diluted per share amounts should be disclosed with equal prominence and presented in the notes.

FRS 33(73)

Notes to the Financial Statements

for the financial year ended 31 December 2005

13. Cash and cash equivalents

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash at bank and on hand	12,698	30,798	343	243
Short-term bank deposits	9,530	5,414	1,659	2,458
	<u>22,228</u>	<u>36,212</u>	<u>2,002</u>	<u>2,701</u>

The carrying amounts of cash and cash equivalents approximate their fair value.

FRS 32(86)

Cash and cash equivalents are denominated in the following currencies:

FRS 32(60)(a)
FRS 32(63)(h)

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Singapore Dollar	3,179	5,888	570	270
United States Dollar	15,816	27,033	1,432	2,431
Other	3,233	3,291	–	–
	<u>22,228</u>	<u>36,212</u>	<u>2,002</u>	<u>2,701</u>

Short-term bank deposits at the balance sheet date have an average maturity of three months (2004: three months) from the end of the financial year with the following weighted average effective interest rates:

FRS 32(67)(a,b)
FRS 32(74)(d)

	The Group		The Company	
	2005	2004	2005	2004
Singapore Dollar	1.1%	0.5%	1.1%	0.5%
United States Dollar	2.0%	1.2%	2.0%	1.2%
Other	2.7%	2.3%	–	–

The exposure of cash and cash equivalents to interest rate risks is disclosed in Note 45(b).

Notes to the Financial Statements

for the financial year ended 31 December 2005

For the purposes of the consolidated cash flow statement, the consolidated cash and cash equivalents comprise the following:

FRS 7(45)

	The Group	
	2005	2004
	\$'000	\$'000
Cash and bank balances (as above)	22,228	36,212
Less: Bank overdrafts ⁵ (Note 33)	(2,650)	(6,464)
Cash and cash equivalents per consolidated cash flow statement	<u>19,578</u>	<u>29,748</u>

FRS 7(8)

Acquisition and disposal of subsidiaries

On 28 June 2005, the Company disposed of its 100% interest in PwC Logistics Pte Ltd for a cash consideration of \$983,000 (Note 8).

On 1 October 2005, the Company acquired 70% of the issued share capital of PwC Components (Philippines) Pte Ltd for a cash consideration of \$14,250,000 (Note 26).

Notes to the Financial Statements

for the financial year ended 31 December 2005

The aggregate effects of acquisition and disposal of subsidiaries are as follows:

	← The Group →			
	← Acquisition →	Disposal		
	Fair value \$'000	Carrying amount in acquiree's books \$'000	Carrying amount \$'000	
Cash and cash equivalents	300	300	(804)	FRS 7(40)(c)
Trade and other receivables	1,585	994	(4,404)	FRS 7(40)(d)
Inventories	1,122	982	–	FRS 7(40)(d)
Property, plant and equipment (Note 30)	67,784	63,562	(1,380)	FRS 7(40)(d)
Trademarks and brands (Note 31(b))	4,000	–	–	FRS 7(40)(d)
Investment in associated company (Note 24)	389	329	–	FRS 7(40)(d)
Available-for-sale investments (Note 17)	473	473	–	FRS 7(40)(d)
Other current assets	–	–	(114)	FRS 7(40)(d)
Total assets	75,653	66,640	(6,702)	FRS 7(40)(d)
Trade and other payables	(15,300)	(16,100)	1,157	FRS 7(40)(d)
Borrowings	(41,459)	(42,178)	–	FRS 7(40)(d)
Current income tax liabilities (Note 10(b))	–	–	80	FRS 7(40)(d)
Deferred income tax liabilities (Note 38)	(3,753)	(1,953)	2,037	
Total liabilities	(60,512)	(60,231)	3,274	
Net identifiable assets	15,141	6,409	(3,428)	
Less: Minority interest	(4,542)	(575)	300	
Net identifiable assets acquired/(disposed)	10,599	5,834	(3,128)	
Goodwill (Note 31(a))	3,651			FRS 7(40)(a,b)
Total cash consideration	14,250			
Less: Cash and cash equivalents in subsidiary acquired	(300)			FRS 7(40)(c)
Net cash outflow from acquisition of a subsidiary	13,950			

The aggregate cash inflows arising from the disposal are as follow:

	The Group \$'000	
Net identifiable assets disposed (as above)	3,128	
Transfer from shareholders' equity - currency translation differences (Note 40(b)(iv))	(1,200)	FRS 7(40)(a,b)
	1,928	
Loss on disposal (Note 8)	(945)	FRS 7(40)(c)
Cash proceeds from disposal	983	
Less: Cash and cash equivalents in subsidiaries disposed	(804)	
Net cash inflow on disposal	179	

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Cash and cash equivalents

Definition of cash equivalents

1. Under FRS 7 *Cash Flow Statements*, cash equivalents are defined as “short-term highly liquid investments that are readily convertible to known amount of cash which are subject to an insignificant risk of changes in value”. An investment normally qualifies as cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents. Bank borrowings are generally considered to be financing activities. However, bank overdrafts may be an integral part of an entity’s cash management whereby the balance often fluctuates from being positive to overdrawn and in these circumstances, bank borrowings are included as a component of cash and cash equivalents. Accordingly, the amount of cash disclosed in the balance sheet may differ from the amount shown in the cash and cash equivalents. A reconciliation of the two amounts is required.

FRS 7(7-9)

FRS 7(45)

2. Cash held as collateral should not be included as cash and cash equivalents.

Cash not available for use

3. There may be various circumstances in which cash and bank balances held by an entity are not available for use by the Group. Examples include cash and bank balances held by a subsidiary that operates in a country where exchange controls or other legal restrictions apply. When cash and bank balances are not available for use by the Group, disclosure is required of the amount and the nature of the restrictions placed upon their use.

FRS 7(49)

FRS 7(48)

4. Cash and cash equivalents that are restricted from being exchanged or used to settle a liability for at least 12 months after the balance sheet date should be classified as non-current.

FRS 1(57)

Bank overdrafts

5. Bank overdrafts should be included as a component of cash and cash equivalents only when they form an integral part of an enterprise’s cash management. Otherwise, they are generally considered as part of an enterprise’s financing activities.

FRS 7(8)

Notes to the Financial Statements

for the financial year ended 31 December 2005

14. Trade and other receivables - current

FRS 1(75)(b)

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Finance lease receivables (Note 22)	156	218	–	–	FRS 17(47)(a)
Trade receivables:					
- Associated companies	108	97	–	–	FRS 1(74)
- Third parties	16,920	15,778	7,612	2,265	FRS 24(17,22)
	17,028	15,875	7,612	2,265	
Less: Provision for impairment of receivables – third parties	(109)	(70)	(100)	(100)	
Trade receivables – net	16,919	15,805	7,512	2,165	
Construction contracts:					
- Due from customers (Note 15)	1,384	1,188	–	–	FRS 11(42)(a)
- Retentions (Note 15)	60	40	–	–	FRS 11(40)(c)
	1,444	1,228	–	–	
Loan to an associated company	2,668	1,388	–	–	
Less: Non-current portion (Note 21)	(2,322)	(1,352)	–	–	FRS 1(74)
	346	36	–	–	
Staff loans (Note 23)	60	25	30	20	FRS 1(74)
Accrued interest receivable on interest rate swap contracts	10	20	12	10	
Other receivables	30	20	8	5	
	18,965	17,352	7,562	2,200	

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers who are internationally dispersed, covering a large spectrum of industries and having a variety of end markets in which they sell. Due to these factors, management believes that no additional credit risk beyond the amount of allowance for impairment made is inherent in the Group's and Company's trade receivables.

FRS 32(76)(a,b)

The carrying amounts of current trade and other receivables approximate their fair value. The currency denomination and exposure to interest rate risks of current trade and other receivables are disclosed in Notes 21 and 45(b) respectively, together with non-current trade and other receivables.

FRS 32(86)

Trade receivables amounting to \$260,000 (2004: \$340,000) have been factored to a bank with recourse to the Group at the balance sheet date. The corresponding cash received is recorded as bank borrowings.

Impairment loss on trade receivables recognised as an expense and included in "Distribution and marketing costs" amounted to \$39,000 (2004: \$50,000).

FRS 32(94)(i)

Notes to the Financial Statements

for the financial year ended 31 December 2005

15. Construction contract work-in-progress

	The Group		
	2005	2004	
	\$'000	\$'000	
Balance at beginning of financial year	147	347	
Contract costs incurred during financial year	23,847	8,991	
Contract expenses recognised during financial year	<u>(23,732)</u>	<u>(9,191)</u>	
Balance at end of financial year ¹	<u>262</u>	<u>147</u>	
Aggregate contract costs recognised and recognised profits (less recognised losses) to date	52,067	23,325	FRS 11(40)(a)
Less: Progress billings	<u>(50,763)</u>	<u>(22,197)</u>	
	1,304	1,128	
Due from customers on construction contracts ² (Note 14)	1,384	1,188	FRS 11(42)(a)
Due to customers on construction contracts ² (Note 32)	<u>(80)</u>	<u>(60)</u>	FRS 11(42)(b)
	1,304	1,128	
Advances received on construction contracts (Note 32)	<u>541</u>	262	FRS 11(40)(b)
Retentions on construction contracts (Note 14)	<u>60</u>	40	FRS 11(40)(c)

Guidance Notes

Construction contract work-in-progress

1. Construction contract work-in-progress may include the following:

- (a) contract costs that relate to future activity on the contract, such as cost of materials that have been delivered to a contract site or set aside for use in a contract but not yet installed, used or applied during contract performance except the materials made specially for the contract; and
- (b) payments made to subcontractors in advance of work performed under the subcontract. Such costs shall be excluded from contract costs incurred to date when determining the stage of completion of a contract.

2. The determination of amounts due to and from customers on construction contracts should be made on a contract-by-contract basis. These balances shall not be offset against each other.

FRS 11(31)

Notes to the Financial Statements

for the financial year ended 31 December 2005

16. Inventories¹

FRS 1(75)(c)
FRS 2(36)(b)

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Raw materials	7,622	7,612	–	–	FRS 2(37)
Work-in-progress	1,810	1,796	–	–	FRS 2(37)
Finished goods	14,826	7,686	2,200	335	FRS 2(37)
	24,258	17,094	2,200	335	

The cost of inventories recognised as expense and included in “cost of sales” amounted to \$90,471,000 (2004: \$51,985,000).

FRS 2(36)(d)

Inventories of \$1,200,000 (2004: \$1,000,000) of the Group and \$600,000 (2004: \$300,000) of the Company have been pledged as security for bank overdrafts of the Group and the Company (Note 33(a)).

FRS 2(36)(h)

During the year, the Group reversed² \$200,000, part of an inventory write-down made in 2004, as the inventories were sold above the carrying amounts in 2005. The reversal has been included in “cost of sales” in the income statement.

FRS 2(36)(e,f)

Guidance Notes

Inventories

Inventories classified as current assets

1. Disclosure is required of the total carrying amount of inventories and further sub-classifications as appropriate to the entity's operations. Common classifications of inventories are merchandise, production supplies, materials, work-in-progress and finished goods. The inventories of a service provider may simply be described as work-in-progress.

FRS 2(36)(b)
FRS 2(37)

Reversal of write-down

2. Where there is any reversal of write-down of inventories, the following should be disclosed:
 - (a) amount of any reversal of write-down that is recognised as income in the period; and
 - (b) the circumstances or events that led to the reversal.

FRS 2(36)(f,g)

Notes to the Financial Statements

for the financial year ended 31 December 2005

17. Available-for-sale financial assets

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of financial year				
- At cost	12,937	12,246	1,218	1,218
- Effect of adoption of FRS 39 on 1 January 2005 (Note 3.5(a)(iii))	125	—	127	—
As restated	13,062	12,246	1,345	1,218
Currency translation differences	372	—	—	—
Acquisition of subsidiary (Note 13)	473	—	—	—
Additions	2,781	691	—	—
Fair value gains transferred to equity (Note 40(b)(ii))	560	—	155	—
Balance at end of financial year	17,248	12,937	1,500	1,218
Less: Non-current portion	(15,298)	(12,291)	(1,500)	(1,218)
Current portion	1,950	646	—	—

FRS 1(57)

Current investments and long-term investments as at 1 January 2004 and 31 December 2004 have been reclassified into “available-for-sale financial assets” and “other financial assets at fair value through profit or loss” so as to conform to the presentation adopted in 2005. Available-for-sale financial assets are measured in accordance with the accounting policy as set out in Note 2.12 only with effect from 1 January 2005.

Available-for-sale financial assets include the following:

FRS 32(92)(b)

	The Group			The Company		
	2005 \$'000	← 2004 → \$'000	\$'000	2005 \$'000	← 2004 → \$'000	\$'000
	At fair value	At fair value	At cost	At fair value	At fair value	At cost
Listed securities:						
- Equity securities - Singapore	12,885	10,682	10,587	1,500	1,345	1,218
- Equity securities - US	3,728	2,100	2,086	—	—	—
- S\$ Corporate Fixed rate notes of 4% due 27 August 2010	288	—	—	—	—	—
	16,901	12,782	12,673	1,500	1,345	1,218
Unlisted securities:						
- S\$ Corporate Variable rate notes due 30 November 2008	347	280	264	—	—	—
	17,248	13,062	12,937	1,500	1,345	1,218

FRS 39(AG71-73)

FRS 32(67)

FRS 39(AG74-79)

The effective interest rates for the interest-bearing financial assets are as follow:

FRS 32(67)(b)

	The Group	
	2005 %	2004 %
S\$ Corporate Fixed rate notes of 4% due 27 August 2010	4.2	4.2
S\$ Corporate Variable rate notes due 30 November 2008	4.6	3.8

Notes to the Financial Statements

for the financial year ended 31 December 2005

18. Derivative financial instruments

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of financial year				
- At cost				
- Effect of adoption of FRS 39 on 1 January 2005 (Note 3.5(d))	-	-	-	-
As restated	280	-	37	-
Fair value gains/(losses)				
- Included in income statement	529	-	173	-
- Included in hedging reserve	80	-	9	-
Balance at end of financial year	889	-	219	-

Analysed as:

	← The Group →			← The Company →		
	Contract/ Notional Amount \$'000	Fair values		Contract/ Notional Amount \$'000	Fair values	
		Assets \$'000	Liabilities \$'000		Assets \$'000	Liabilities \$'000
<i>Cash-flow hedges</i>						
- Interest-rate swaps	4,324	645	(535)	2,170	266	(47)
<i>Fair-value hedges</i>						
- Currency forwards	5,320	409	-	-	-	-
<i>Non-hedging instruments</i>						
- Currency forwards	2,108	410	(40)	-	-	-
Total		1,464	(575)		266	(47)
Less: Current portion		1,069	(440)		232	(35)
Non-current portion		395	(135)		34	(12)

At 31 December 2005, the fixed interest rates on interest rate swaps vary from 6.9% to 7.4% (2004: 6.7% to 7.2%) and the main floating rate is LIBOR.

FRS 32(67)(b)

Notes to the Financial Statements

for the financial year ended 31 December 2005

19. Financial assets at fair value through profit or loss

	The Group	
	2005	2004
	\$'000	\$'000
Balance at beginning of financial year		
- At cost	7,499	6,858
- Effect of adoption of FRS 39 on 1 January 2005 (Note 3.5(a)(i))	827	—
As restated	8,326	6,858
Additions	10,850	6,066
Disposals	(7,885)	(5,193)
Fair value losses (net) (Note 5)	(506)	(232)
Balance at end of financial year	10,785	7,499
Designated as :		
- held for trading	9,847	7,499
- at fair value on initial recognition	938	—
	10,785	7,499

FRS 32(94)(e)

Current investments as at 1 January 2004 and 31 December 2004 have been reclassified into "Available-for-sale financial assets" and "Financial assets at fair value through profit or loss" so as to conform to the presentation adopted in 2005. Financial assets at fair value through profit or loss are measured in accordance with the accounting policy as set out in Note 2.12 only with effect from 1 January 2005.

Financial assets at fair value through profit or loss include the following:

	The Group		
	2005	← 2004 →	
	At fair	At fair	At cost
	value	value	value
	\$'000	\$'000	\$'000
Listed securities:			
- Equity securities - Singapore	5,850	4,023	3,560
- Equity securities - US	4,935	4,303	3,939
	10,785	8,326	7,499

FRS 32(92)(b)
FRS 39(AG71-73)

Notes to the Financial Statements

for the financial year ended 31 December 2005

20. Other current assets

FRS 1(75)(b)

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Deposits for purchase of plant, equipment and motor vehicles	345	221	–	–
Prepayments	200	105	50	50
	<u>545</u>	<u>326</u>	<u>50</u>	<u>50</u>

The carrying amounts of deposits approximate their fair value.

FRS 32(86)

21. Trade and other receivables - non-current

FRS 1(75)(b)

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Finance lease receivables (Note 22)	600	600	–	–	FRS 17(47)(a)
Other receivables:					
- Loan to associated company	2,322	1,352	–	–	FRS 24(17,22)
- Loans to subsidiaries	–	–	2,986	3,100	
- Staff loans (Note 23)	200	150	150	100	
	<u>3,122</u>	<u>2,102</u>	<u>3,136</u>	<u>3,200</u>	

The current receivables relating to finance lease receivables are shown in Note 14. Non-current receivables are due within five years from the balance sheet date.

FRS 32(67)(a)

The fair values for non-current trade and other receivables are as follows:

FRS 32(67)(a)

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Finance lease receivables	620	610	–	–
Loan to associated company	2,400	1,400	–	–
Loans to subsidiaries	–	–	2,986	3,100
Staff loans	205	154	155	106

The fair values are based on discounted cash flows using a discount rate determined based on market rates.

Notes to the Financial Statements

for the financial year ended 31 December 2005

Trade and other receivables (current (Note 14) and non-current) are denominated in the following currencies:

FRS 32(60)(a)
FRS 32(63)(h)

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Singapore Dollar	7,577	11,954	10,698	5,400
United States Dollar	10,371	4,780	–	–
Euro	3,264	1,381	–	–
Others	875	1,339	–	–
	22,087	19,454	10,698	5,400

The weighted average effective interest rates for current and non-current receivables are as follows:

FRS 32(67)(b)

	The Group		The Company	
	2005	2004	2005	2004
Finance lease receivables	7.1%	6.8%	7.1%	6.8%
Loan to associated company	2.5%	2.5%	2.5%	2.5%
Loans to subsidiaries	–	–	3.2%	3.1%
Staff loans	4.5%	4.2%	4.5%	4.2%

The exposure of non-current trade and other receivables to interest rate risks is disclosed in Note 45(b), together with current trade and other receivables.

Notes to the Financial Statements

for the financial year ended 31 December 2005

22. Finance lease receivables

	The Group		
	2005	2004	
	\$'000	\$'000	
Gross receivables due:			FRS 17(47)(a)
- Not later than one year	236	316	
- Later than one year and not later than five years	700	600	
- Later than five years	146	147	
	1,082	1,063	
Less: Unearned finance income	(326)	(245)	FRS 17(47)(b)
Net investment in finance leases	756	818	

The net investment in finance leases may be analysed as follows:

	The Group		
	2005	2004	
	\$'000	\$'000	
Not later than one year (Note 14)	156	218	
Later than one year (Note 21):			
- Later than one year and not later than five years	520	530	
- Later than five years	80	70	
	600	600	
	756	818	

23. Staff loans

	The Group		The Company		
	2005	2004	2005	2004	
	\$'000	\$'000	\$'000	\$'000	
Not later than one year (Note 14)	60	25	30	20	FRS 32(67)(a)
Later than one year but not later than five years (Note 21)	200	150	150	100	FRS 32(74)(a)
	260	175	180	120	

Loans are made under an approved staff loan scheme. They include the following loans made to a key management staff of the Group:

	The Group		The Company		
	2005	2004	2005	2004	
	\$'000	\$'000	\$'000	\$'000	
Not later than one year	20	20	20	20	FRS 32(67)(a)
Later than one year but not later than five years	15	35	15	35	FRS 32(74)(a)
	35	55	35	55	

Notes to the Financial Statements

for the financial year ended 31 December 2005

24. Investments in associated companies

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Equity investment at cost			<u>1,000</u>	<u>1,000</u>	
Balance at beginning of financial year	8,569	8,133			
Currency translation differences	(484)	375			
Acquisition of subsidiary (Note 13)	389	–			
Share of (losses)/profits	(174)	145			FRS 1(1G4)
Other movements	(92)	(84)			
Balance at end of financial year	<u>8,208</u>	<u>8,569</u>			FRS 28(38)
The summarised financial information of associated companies are as follows:					
- Assets	59,774	36,918			FRS 28(37)(b)
- Liabilities	46,401	23,674			
- Revenues	65,865	45,013			
- Net (loss)/profit	<u>(500)</u>	<u>800</u>			
Share of associated companies contingent liabilities incurred jointly with other investors ⁵	<u>106</u>	<u>240</u>			FRS 28(40)(a)
Contingent liabilities in which the Group is severally liable ⁵	<u>60</u>	<u>100</u>			FRS 28(40)(b)

Investments in associated companies at 31 December 2005 include goodwill of \$1,020,000 (2004: \$1,020,000).

FRS 28(23)

The Group has not recognised losses amounting to \$15,000 (2004: \$5,000) for PwC Insignificant Associate Ltd because the Group's share of losses has exceeded its interest in PwC Insignificant Associate Ltd. The accumulated losses not recognised were \$27,000 (2004: \$12,000).⁶

FRS 28(37)(g)

Details of significant associated companies are included in Note 52.

Share of profits in 2004 included amortisation of goodwill amounting to \$200,000. In 2005, goodwill is no longer amortised (see Note 2.6(a)).

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Investments in associated companies

1. Share of results is after tax and minority interest of associated companies. FRS 1(IG4)

2. The most recent available financial statements of the associated companies are used by the investor in applying the equity method. When the reporting dates of the investor and the associated companies are different, the associated companies should prepare, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so. FRS 28(24)

When the financial statements of an associated company used in applying the equity method are prepared as of a different reporting date from that of the investor, adjustments should be made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements. In any case, the difference between the reporting date of the associated company and that of the investor should be no more than three months. The length of the reporting periods and any difference in the reporting dates should be the same from period to period. FRS 28(25)

3. If an associated company uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments should be made to conform the associate's accounting policies to those of the investor when the associate's financial statements are used by the investor in applying the equity method. FRS 28(27)

4. If an associated company has outstanding cumulative preference shares that are held by parties other than the investor and classified as equity, the investor computes its share of profits or losses after adjusting for the dividends on such shares, whether or not the dividends have been declared. FRS 28(28)

5. Where applicable, the investor should disclose: FRS 28(40)(a)
 - (a) its share of the contingent liabilities incurred jointly with other investors; and
 - (b) those contingent liabilities that arise because the investor is severally liable for the liabilities. FRS 28(40)(b)

6. If an investor's share of losses of an associated company equals or exceeds its interest in the associated company, the investor discontinues recognising its share of further losses. The interest in an associated company is the carrying amount of the investment in the associated company under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associated company. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associated company in the reverse order of their seniority (i.e. priority in liquidation). After the investor's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associated company. If the associated company subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised. FRS 28(29)

Notes to the Financial Statements

for the financial year ended 31 December 2005

25. Investment in a joint venture

The Company has a 60% interest amounting to \$880,000 (2004: \$880,000) at cost in PwC JV Logistics (PRC) Ltd ("PwC JV Logistics"), which provides freight forwarding and warehousing services in the People's Republic of China. PwC JV Logistics is deemed to be a joint venture of the Company as the appointment of its directors and the allocation of voting rights for key business decisions, require the unanimous approval of its venturers.¹

FRS 31(56)

The following amounts represent the Group's 60% share of the assets and liabilities and income and expenses of the joint venture and are included in the consolidated balance sheet and income statement using the line-by-line format of proportionate consolidation:²

FRS 31(56)

	The Group		
	2005	2004	
	\$'000	\$'000	
Assets:			
Current assets	803	717	
Non-current assets	2,730	2,124	
	3,533	2,841	
Liabilities:			
Current liabilities	(388)	(406)	
Non-current liabilities	(1,081)	(1,073)	
	(1,469)	(1,479)	
Net assets	2,064	1,362	
Sales	1,100	778	
Expenses	(354)	(509)	
Profit before tax	746	269	
Income tax	(224)	(160)	
Profit after tax	522	109	
Operating cash inflows ³	640	560	FRS 7(50)(b)
Investing cash (outflows)/inflows ³	(40)	70	FRS 7(50)(b)
Financing cash outflows ³	(20)	(110)	FRS 7(50)(b)
Total cash inflows ³	580	520	
Capital commitments in relation to interest in joint venture ⁴	–	250	
Proportionate interest in joint venture's commitments ⁴	90	92	FRS 31(55) FRS 31(55)

Details of the joint venture are included in Note 52.

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Investment in a joint venture

Legal subsidiary not required to be consolidated

1. Under the Companies Act, a company is a subsidiary of another company if the latter owns more than 50% of the equity interest in the former. Under FRS 27, a subsidiary is defined as an entity that is controlled by another entity. There is a rebuttable presumption that an entity whose majority equity interest is held by another entity, the former entity is a subsidiary of the latter.

CA 4(5)(1)
FRS 27(4)

However, there may be a situation that control is not obtained despite owning more than 50% equity interest. For example, an entity may be jointly-controlled by the partners of the joint venture although one venturer may own more than 50% of the equity interest in the joint venture. As companies are required to prepare financial statements that comply with FRS, entities that do not meet the definition of subsidiaries under FRS shall not be consolidated. In such an event, such legal subsidiary should be accounted for in accordance with FRS 31 and disclosed as a non-consolidating entity, together with the reasons for not consolidating. (See Note 52 in Page 199).

Disclosures for significant joint ventures

2. A venturer should disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities. A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method should disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.
3. The disclosure of the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation is not compulsory but it is encouraged as it may be relevant to users in understanding the financial position and liquidity of a company.
4. Where applicable, the venturer should disclose the aggregate amount of the following commitments in respect of the interests in joint ventures separately from other commitments:
 - (a) capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments incurred jointly with other venturers; and
 - (b) its share of the capital commitments of the joint ventures themselves.
5. Where applicable, the venturer should disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from other contingent liabilities:
 - (a) contingencies that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities incurred jointly with other venturers;
 - (b) its share of the contingent liabilities that the joint ventures themselves for which it is contingently liable; and
 - (c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.

FRS 31(56)

FRS 7(50)(b)

FRS 31(55)

FRS 31(54)

Notes to the Financial Statements

for the financial year ended 31 December 2005

26. Investments in subsidiaries

	The Company	
	2005 \$'000	2004 \$'000
Equity investments at cost ⁵	<u>110,110</u>	<u>95,960</u>

Details of significant subsidiaries are included in Note 52.

Acquisition of a subsidiary

On 1 October 2005 the Company acquired 70% of the issued share capital of PwC Components (Philippines) Pte Ltd ("PwC Philippines") for a cash consideration (inclusive of transaction cost \$550,000) of \$14,250,000. Additional consideration of \$1,000,000 will be payable in cash if the acquired operations achieve certain sales targets. The directors are of the view that no additional consideration is payable at the date of these financial statements.

FRS 103(66)(a)
FRS 103(67)(a-c)

The acquired subsidiary contributed revenue of \$4,500,000 and net profit of \$675,000 to the Group for the period from 1 October 2005 to 31 December 2005. The subsidiary's assets and liabilities at 31 December 2005 were \$2,950,000 and \$890,000 respectively. If the acquisition had occurred on 1 January 2005, Group revenue would have been \$230,214,000 and net profit would have been \$35,276,000.

FRS 103(70)(a,b)

Fair value of net identifiable assets at the date of acquisition amounted to \$15,141,000, resulting in goodwill on acquisition of \$3,651,000. Details of identifiable net assets acquired are disclosed in Note 13.

The goodwill is attributable to high profitability of the acquired business and the significant synergies expected to arise after the acquisition.

FRS 103(67)(h)

Information about an acquisition that took place on 1 March 2006 is set out in Note 49.

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Investments in subsidiaries

Intra-group balances and transactions

1. Intragroup balances, intragroup transactions and resulting unrealised profits should be eliminated in full. Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

FRS 27(24)

Different balance sheet dates

2. The financial statements of subsidiaries used in the consolidation should be drawn up to the same reporting date as that of the parent. When the reporting date of the parent and a subsidiary is different, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so. When financial statements used in the consolidation are drawn up to different reporting dates, that fact should be disclosed for each consolidated subsidiary. In addition, adjustments should be made for the effects of significant transactions or other events that occur between those dates and the date of the parent's financial statements. In any case, the difference between reporting dates should be no more than three months. The length of the reporting periods difference in the reporting date should be the same period to period.

FRS 27(26,27)

3. The company's directors are required to ensure that the financial year of the subsidiary coincides with the financial year of the holding company within two years of acquisition.

CA 200(1)

Uniform accounting policies

4. Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

FRS 27(28)

Loans to subsidiaries

5. Where applicable, loans to subsidiaries that form part of a company's net investment in subsidiaries should be separately disclosed.

FRS 1(69)

Notes to the Financial Statements

for the financial year ended 31 December 2005

27. Investment properties

	The Group		
	2005 \$'000	2004 \$'000	
Balance at beginning of financial year	2,635	2,585	
Revaluation surplus (Note 40(b)(vi))	253	60	FRS 25(49)(g)
Revaluation loss taken to the income statement (Note 5)	(123)	(10)	FRS 25(49)(b)(iii)
Balance at end of financial year	<u>2,765</u>	<u>2,635</u>	

Investment properties are valued annually on 31 December by an independent professional valuer. Valuations are made on the basis of open market value. It is the intention of the Directors to hold the investment properties for the long term.¹

FRS 25(49)(f)

The Group's revaluation loss has been included in "other gains (net)" in the income statement.

Investment properties are leased to third parties under operating leases (Note 44(c)).

FRS 17(56)(c)
FRS 17(57)

Investment properties are mortgaged to secure bank loans (Note 33(a)).²

FRS 25(49)(e)

Guidance Notes

Investment properties

Disclosure of development properties and investment properties for listed companies

- Listed companies are required to provide additional disclosures about investment properties. Please refer to the Guidance Note 11 under Additional Singapore Exchange Securities Trading Listing Manual Requirements.

Restrictions

- Any significant restrictions on the realisability of investments or the remittance of income and proceeds of disposal should be disclosed.

FRS 25(49)(e)

Investment holding business

- For companies whose main business is the holding of investments, an analysis of the portfolio of investments should be given.

FRS 25(49)(h)

Notes to the Financial Statements

for the financial year ended 31 December 2005

28. Development property

	The Group		
	2005	2004	
	\$'000	\$'000	
Land and other related costs	2,000	2,000	
Development costs	400	40	
	2,400	2,040	FRS 16(74)(b)

Borrowing costs^{2,3,4} of \$29,000 (2004: \$25,000), arising on financing specifically entered into for the development of property for future rental, are capitalised during the financial year, and are included in "development costs". FRS 23(29)(b)

The land under development property has been charged as security for bank loans granted to a subsidiary (Note 33(a)). FRS 16(74)(a)

Guidance Notes

Development property

Disclosure of development properties and investment properties for listed companies

1. Listed companies are required to provide additional disclosures about investment properties. Please refer to the Guidance Note 11 under Additional Singapore Exchange Securities Trading Listing Manual Requirements.

Borrowing costs

2. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. FRS 23(15)
3. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation should be determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during that period. FRS 23(17)
4. Where applicable, the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation should be disclosed. FRS 23(29)(c)

Notes to the Financial Statements

for the financial year ended 31 December 2005

29. Held-to-maturity financial assets

	The Group		
	2005 \$'000	2004 \$'000	
Bonds with fixed interest of 5.5% and maturity date of 31 May 2015	1,650	1,593	FRS 32(67)
Bonds with variable interest of 6.0% and maturity date of 28 June 2010	472	—	FRS 32(67)
	<u>2,122</u>	<u>1,593</u>	

Long-term investments as at 31 December 2004 were reclassified into “Available-for-sale financial assets (non-current)” and “held-to-maturity financial assets” to conform to the presentation adopted in 2005 in accordance with FRS 39.

The effective interest rates for the bonds were as follows:

FRS 32(67)(b)

	The Group	
	2005 %	2004 %
Bonds with fixed interest of 5.5% and maturity date of 31 May 2015	5.5	5.5
Bonds with variable interest of 6.0% and maturity date of 28 June 2010	<u>6.5</u>	<u>—</u>

The fair values for the bonds were as follows:

FRS 32(86)

	The Group	
	2005 \$'000	2004 \$'000
Bonds with fixed interest of 5.5% and maturity date of 31 May 2015	1,720	1,612
Bonds with variable interest of 6.0% and maturity date of 28 June 2010	<u>500</u>	<u>—</u>

The fair values are based on discounted cash flows using a market interest rate for an equivalent non-convertible bonds as at the balance sheet date.

FRS 32(86)

The held-to-maturity financial assets are denominated in Singapore Dollars and the exposure to interest rate risks is disclosed in Note 45(b).

FRS 32(67)

Notes to the Financial Statements

for the financial year ended 31 December 2005

30. Property, plant and equipment

	Freehold land and buildings	Leasehold land and buildings	Plant and equipment	Motor vehicles	Total	
	\$'000	\$'000	\$'000	\$'000	\$'000	
The Group						FRS 1(75)(a)
<i>Cost or valuation</i>						FRS 16(73)(d)
At 1 January 2005						
Cost	–	–	84,703	2,700	87,403	FRS 16(73)(a)
Valuation	10,680	28,014	–	–	38,694	FRS 16(73)(a)
	10,680	28,014	84,703	2,700	126,097	FRS 16(73)(d)
Currency translation differences	414	692	2,909	103	4,118	FRS 16(73)(e)(viii)
Acquisition of subsidiary (Note 13)	–	49,072	18,199	513	67,784	FRS 16(73)(e)(iii)
Additions	–	7,126	2,202	427	9,755	FRS 16(73)(e)(i)
Reclassified to disposal group	–	–	(1,842)	–	(1,842)	FRS 16(73)(e)(ii)
Disposals ¹	–	(2,120)	(4,887)	–	(7,007)	FRS 16(73)(d)
At 31 December 2005	11,094	82,784	101,284	3,743	198,905	
Representing:						
Cost	–	–	101,284	3,743	105,027	FRS 16(73)(a)
Valuation	11,094	82,784	–	–	93,878	FRS 16(73)(a)
	11,094	82,784	101,284	3,743	198,905	FRS 16(73)(d)
<i>Accumulated depreciation</i>						
At 1 January 2005	–	–	26,177	1,250	27,427	FRS 16(73)(d)
Currency translation differences	–	–	808	87	895	FRS 16(73)(e)(viii)
Depreciation charge	575	2,970	13,515	694	17,754	FRS 16(73)(e)(vii)
Reclassified to disposal group	–	–	(279)	–	(279)	FRS 16(73)(e)(ii)
Disposals ¹	–	(120)	(550)	–	(670)	
At 31 December 2005	575	2,850	39,671	2,031	45,127	FRS 16(73)(d)
Net book value						
At 31 December 2005	10,519	79,934	61,613	1,712	153,778	

Notes to the Financial Statements

for the financial year ended 31 December 2005

	Freehold land and buildings	Leasehold land and buildings	Plant and equipment	Motor vehicles	Total	
	\$'000	\$'000	\$'000	'000	\$'000	
The Group						FRS 1(75)(a)
<i>Cost or valuation</i>						FRS 16(73)(d)
At 1 January 2004						
Cost	–	–	87,450	2,362	89,812	FRS 16(73)(a)
Valuation	10,678	26,312	–	–	36,990	FRS 16(73)(a)
	10,678	26,312	87,450	2,362	126,802	FRS 16(73)(d)
Currency translation differences	(122)	(272)	(1,073)	(53)	(1,520)	FRS 16(73)(e)(viii)
Additions	–	1,588	4,063	391	6,042	FRS 16(73)(e)(i)
Disposals ¹	–	–	(5,737)	–	(5,737)	FRS 16(73)(e)(ii)
Revaluation surplus ² (Note 40)	235	898	–	–	1,133	FRS 16(73)(e)(iv)
Revaluation adjustments ²	(111)	(512)	–	–	(623)	
At 31 December 2004	10,680	28,014	84,703	2,700	126,097	FRS 16(73)(d)
Representing:						
Cost	–	–	84,703	2,700	87,403	FRS 16(73)(a)
Valuation	10,680	28,014	–	–	38,694	FRS 16(73)(a)
	10,680	28,014	84,703	2,700	126,097	FRS 16(73)(d)
<i>Accumulated depreciation</i>						
At 1 January 2004	48	69	20,822	755	21,694	FRS 16(73)(d)
Currency translation differences	(12)	(18)	(489)	(37)	(556)	FRS 16(73)(e)(viii)
Depreciation charge	75	461	8,594	532	9,662	FRS 16(73)(e)(vii)
Disposals ¹	–	–	(2,750)	–	(2,750)	FRS 16(73)(e)(ii)
Revaluation adjustments ²	(111)	(512)	–	–	(623)	FRS 16(73)(e)(iv)
At 31 December 2004	–	–	26,177	1,250	27,427	FRS 16(73)(d)
Net book value						
At 31 December 2004	10,680	28,014	58,526	1,450	98,670	

Notes to the Financial Statements

for the financial year ended 31 December 2005

	Plant and equipment	Motor vehicles	Total	
The Company	\$'000	\$'000	\$'000	
				FRS 1(75)(a)
<i>Cost</i>				
At 1 January 2005	432	50	482	FRS 16(73)(a)
Additions	328	180	508	FRS 16(73)(e)(i)
Disposals	(55)	–	(55)	FRS 16(73)(e)(ii)
At 31 December 2005	<u>705</u>	<u>230</u>	<u>935</u>	FRS 16(73)(d)
<i>Accumulated depreciation</i>				
At 1 January 2005	62	20	82	FRS 16(73)(d)
Disposals	(20)	–	(20)	FRS 16(73)(e)(ii)
Depreciation charge	14	4	18	FRS 16(73)(e)(vii)
At 31 December 2005	<u>56</u>	<u>24</u>	<u>80</u>	FRS 16(73)(d)
Net book value				
At 31 December 2005	<u>649</u>	<u>206</u>	<u>855</u>	
<i>Cost</i>				
At 1 January 2004	432	–	432	FRS 16(73)(a)
Additions	–	50	50	FRS 16(73)(e)(i)
At 31 December 2004	<u>432</u>	<u>50</u>	<u>482</u>	FRS 16(73)(d)
<i>Accumulated depreciation</i>				
At 1 January 2004	27	–	27	FRS 16(73)(d)
Depreciation charge	35	20	55	FRS 16(73)(e)(vii)
At 31 December 2004	<u>62</u>	<u>20</u>	<u>82</u>	FRS 16(73)(d)
Net book value				
At 31 December 2004	<u>370</u>	<u>30</u>	<u>400</u>	

Notes to the Financial Statements

for the financial year ended 31 December 2005

- (a) Additions in the consolidated financial statements include \$600,000 (2004: Nil) of motor vehicles acquired under finance leases (where the Group is the lessee).⁶

FRS 7(43)

The carrying amount of motor vehicles held under finance leases at 31 December 2005 amounted to \$925,000 (2004: Nil).⁷

FRS 17(31)(a)

- (b) For the purpose of calculating depreciation of buildings, the amounts attributed to land and buildings at valuation as at the balance sheet date are as follow:⁸

The Group

	2005		2004	
	Land \$'000	Building \$'000	Land \$'000	Building \$'000
Freehold properties	8,643	2,585	9,520	1,280
Leasehold properties	<u>25,007</u>	<u>58,335</u>	<u>8,061</u>	<u>20,469</u>

- (c) The freehold and leasehold land and buildings of the Group and the Company were valued on the basis of open market value by an independent professional valuer³ at 31 December 2004.⁴

FRS 16(77)(a-c)

- (d) If the land and buildings stated at valuation had been included in the financial statements at cost less depreciation, the net book value would have been as follows:

FRS 16(77)(e)

	The Group	
	2005 \$'000	2004 \$'000
Freehold properties	5,925	6,130
Leasehold properties	<u>60,274</u>	<u>11,432</u>

- (e) Bank borrowings are secured on properties of the Group and the Company with carrying amounts of \$102,835,000 and \$537,000 respectively (2004: \$1,530,000 and \$390,000)(Note 33(a)).

FRS 16(74)(a)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Property, plant and equipment

Disposals

- Disposals on sale of a subsidiary may be included in the "Disposals" line item.

FRS 16(35)

Revaluations

- When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is either:
 - restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of an index to its depreciated replacement cost; or
 - eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. For example, this method is used for buildings which are revalued to their market value.

- Companies are required to disclose whether an independent professional valuer is involved in the valuation exercise. The name of the valuer or the particulars of his/her qualification is not required.

FRS 16(77)(1)

- Companies are required to perform regular subsequent revaluations unless the initial revaluations were performed before 1984 or only one-off revaluations were performed between 1 January 1984 and 31 December 1996 (both dates inclusive). In the event that an item of property, plant and equipment has been revalued more than once between 1 January 1984 and 31 December 1996, the company should explain why the PPE should be exempted from subsequent revaluation and obtain its auditor's concurrence on this.

FRS 16(81)

Property, plant and equipment in the course of construction

- Where applicable, the amount of expenditure of property, plant and equipment in the course of construction should be disclosed.

FRS 16(74)(b)

Leased assets

- Acquisitions and disposals of leased assets do not involve the use of cash or cash equivalents and should therefore be excluded from cash flow statement.
- Net carrying amount at the balance sheet date should be disclosed for each class of assets acquired by finance lease.

FRS 7(43)

FRS 17(31)(a)

Land and buildings

- If a company discloses land and buildings in one category, it is recommended as a good practice to disclose, as a separate disclosure note, the amounts attributed to land and buildings for the purpose of calculating depreciation.

Non-mandatory disclosures

- The following disclosures are encouraged:
 - carrying amount of temporarily idle property, plant and equipment;
 - gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
 - carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with FRS 105; and
 - fair value of property, plant and equipment when this is materially different from the carrying amount.

FRS 16(79)

Notes to the Financial Statements

for the financial year ended 31 December 2005

31. Intangible assets

Composition:	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Goodwill arising on consolidation (Note (a))	10,860	12,000	–	–
Trademark and licences (Note (b))	12,648	7,000	1,000	1,000
Computer software licence and development costs (Note (c))	814	600	200	100
	24,322	19,600	1,200	1,100

(a) Goodwill arising on consolidation

FRS 38(118)(e)

	The Group	
	2005 \$'000	2004 \$'000
Cost		
Balance at beginning of financial year		
- As previously reported	14,220	14,220
- Effect of adoption of FRS 103 (Note 3.7(i))	(2,220)	–
- As restated	12,000	14,220
Acquisition of subsidiary (Note 13)	3,651	–
Currency translation differences (Note 3.3(b))	(141)	–
Balance at end of financial year	15,510	14,220
Accumulated amortisation and impairment		
Balance at beginning of financial year		
- As previously reported	2,220	1,570
- Effect of adoption of FRS 103	(2,220)	–
- As restated	–	1,570
Amortisation	–	650
Impairment charge (Note 6)	4,650	–
Balance at end of financial year	4,650	2,220
Net book value	10,860	12,000

FRS 103(75)(a)

FRS 103(75)(f)

FRS 103(75)(a)

FRS 38(118)(e)

FRS 103(75)(e)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below.

	2005			2004		
	Component parts \$'000	Furniture \$'000	Total \$'000	Component parts \$'000	Furniture \$'000	Total \$'000
Singapore	5,768	1,051	6,819	5,970	120	6,090
People's Republic of China	325	1,651	1,976	125	30	155
Europe	740	869	1,609	625	80	705
Other	346	110	456	4,950	100	5,050
	<u>7,179</u>	<u>3,681</u>	<u>10,860</u>	<u>11,670</u>	<u>330</u>	<u>12,000</u>

FRS 36(134)(a)

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the component parts business in which the CGU operates.

FRS 36(134)(c)

FRS 36(134)(d)(iii)

Key assumptions used for value-in-use calculations:

FRS 36(134)(d)(i)

	Component parts				Furniture			
	Singapore	People's Republic of China	Europe	Other	Singapore	People's Republic of China	Europe	Other
Gross margin ¹	60.0%	59.0%	60.0%	56.0%	58.0%	56.0%	58.0%	55.0%
Growth rate ²	1.8%	1.8%	1.8%	1.9%	1.1%	1.3%	1.1%	1.4%
Discount rate ³	6.3%	10.0%	10.7%	12.8%	11.5%	11.0%	11.8%	13.5%

¹ Budgeted gross margin

² Weighted average growth rate used to extrapolate cash flows beyond the budget period

³ Pre-tax discount rate applied to the cash flow projections

Notes to the Financial Statements

for the financial year ended 31 December 2005

These assumptions have been used for the analysis of each CGU within the business segment. Management determined budgeted gross margin based on past performance and its expectations of the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

FRS 36(134)(d)(ii)

FRS 36(55)

Impairment charge of \$4,650,000 (2004: Nil) has been included in administrative expenses in the income statement³. The impairment charge arose from the Furniture cash-generating unit (CGUs) in PRC segment following a decision to reduce the manufacturing output as a result of reducing customer demand. The Group also reassessed the useful lives of its property, plant and equipment and determined that no change in the useful lives is required.

FRS 36(126)(a)
FRS 36(130)

(b) Trademark and licences

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Balance at beginning of financial year	7,000	6,971	1,000	400	FRS 38(118)(e)
Currency translation differences	(19)	(306)	–	–	FRS 38(118)(c) FRS 38(118)(e)(vii)
Acquisition of subsidiary (Note 13)	4,000	–	–	–	
Additions	2,447	700	100	660	
Amortisation	(680)	(365)	(100)	(60)	FRS 38(118)(e)
Reclassified to disposal group (Note 11)	(100)	–	–	–	
Balance at end of financial year	12,648	7,000	1,000	1,000	FRS 38(118)(c)
Cost	14,028	7,700	1,660	1,560	
Accumulated amortisation	(1,380)	(700)	(660)	(560)	
Net book value	12,648	7,000	1,000	1,000	

Notes to the Financial Statements

for the financial year ended 31 December 2005

(c) Computer software licence and development costs¹

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Balance at beginning of financial year	600	845	100	120	FRS 38(118)(e)(i)
Currency translation differences	(32)	(45)	–	–	FRS 38(118)(c) FRS 38(118)(e)(vii)
Additions	366	–	120	–	
Amortisation	(120)	(200)	(20)	(20)	FRS 38(118)(e)(vi)
Balance at end of financial year	<u>814</u>	<u>600</u>	<u>200</u>	<u>100</u>	FRS 38(118)(c)
Cost	1,634	1,300	240	120	
Accumulated amortisation	(820)	(700)	(40)	(20)	
Net book value	<u>814</u>	<u>600</u>	<u>200</u>	<u>100</u>	

(d) Amortisation expense included in the income statement is as follows:³

FRS 38(118)(d)

	The Group	
	2005 \$'000	2004 \$'000
Cost of sales	680	365
Administrative expenses	120	850
Total (Note 6)	<u>800</u>	<u>1,215</u>

Guidance Notes

Intangible assets

Computer software licence and development costs

1. Computer software licence and development costs should be recognised as intangible assets when they meet the criteria set in FRS 38 *Intangible Assets* and when these software are not integral to the related hardware. Computer software which is integral to the related hardware should be included in property, plant and equipment.

FRS 38(4)

Intangible assets acquired by way of government grant

2. For intangible assets acquired by way of a government grant and initially recognised at fair value, the following should be disclosed:
 - (i) the fair value initially recognised for these assets;
 - (ii) their carrying amount; and
 - (iii) for subsequent measurement, whether intangible assets are treated
 - (a) at cost less accumulated amortisation and accumulated impairment losses; or
 - (b) at revalued amounts, being its fair value at the date of revaluation, less accumulated amortisation and accumulated impairment losses.

FRS 38(122)(c)

FRS 38(74)

FRS 38(75)

Disclosures

3. FRS 36 *Impairment of Assets* and FRS 38 *Intangible Assets* further require the disclosure of the line items in the income statement to which impairment loss (and/or its reversal), and amortisation expense have been recorded.

FRS 36(126)(a,b)
FRS 38(118)(d)

Notes to the Financial Statements

for the financial year ended 31 December 2005

32. Trade and other payables

	The Group		The Company		FRS 1(74)
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Trade payables to:					
- Third parties	958	528	106	154	
- Associated companies	2,202	1,095	40	200	FRS 24(17,22)
- Immediate holding corporation	9,690	7,021	—	—	FRS 24(17,22)
	12,850	8,644	146	354	
Construction contracts:					
- Advances received (Note 15)	541	262	—	—	FRS 11(40)(b)
- Due to customers (Note 15)	80	60	—	—	FRS 11(42)(b)
	621	322	—	—	
Accrued interest payable on borrowings	1,381	538	113	167	
Other accrual for operating expenses	1,379	1,336	58	75	
	16,231	10,840	317	596	

The carrying amounts of current trade and other payables approximate their fair value.

FRS 32(86)

Trade and other payables (excluding construction contracts) are denominated in the following currencies:

FRS 32(60)(a)
FRS 32(63)(h)

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Singapore Dollar	9,081	7,540	205	470
United States Dollar	4,316	1,878	112	126
Other	2,213	1,100	—	—
	15,610	10,518	317	596

Notes to the Financial Statements

for the financial year ended 31 December 2005

33. Borrowings

	The Group		The Company		FRS 1(74)
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
<i>Current</i>					FRS 1(52,57)
Bank overdrafts	2,650	6,464	3,500	3,200	
Bank borrowings	6,754	9,131	–	7,000	
Finance lease liabilities (Note 36)	120	75	–	–	
	9,524	15,670	3,500	10,200	
<i>Non-current</i>					FRS 1(52,57)
Bank borrowings	39,228	59,850	–	31,759	
Convertible bonds (Note 34)	42,822	–	42,822	–	
Redeemable preference shares (Note 35)	30,000	30,000	30,000	30,000	
Finance lease liabilities (Note 36)	805	375	–	–	
	112,855	90,225	72,822	61,759	
Total Borrowings	122,379	105,895	76,322	71,959	

(a) Security granted

Total borrowings include secured liabilities of \$88,065,000 (2004: \$70,720,000) and \$67,750,000 (2004: \$60,280,000) for the Group and the Company respectively. Bank overdrafts of the Group and the Company are secured by debenture deeds which provide for first floating charges on inventories (Note 16) of the Company and certain subsidiaries. Bank borrowings of the Group and the Company are secured by a first mortgage over the Group's trade receivables (Notes 14 and 21), investment properties (Note 27), development property (Note 28), land and buildings (Note 30(e)). Finance lease liabilities of the Group are secured by the rights to the leased motor vehicles (Note 30(a)), which will revert to the lessor in the event of default by the Group.

FRS 2(36)(h)

FRS 16(74)(a)

(b) Maturity of borrowings

The current borrowings (excluding finance lease liabilities) have an average maturity of 7.5 months (2004: 6.5 months) from the end of the financial year. The non-current borrowings (excluding finance lease liabilities (Note 36)) have the following maturity:

FRS 32(67)(a)
FRS 32(74)(a)

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Later than one year and not later than five years	82,050	23,450	42,822	31,759
Later than five years	30,000	66,400	30,000	30,000
	112,050	89,850	72,822	61,759

In 2005, the Group refinanced its borrowings that fell between one and five years, by issuing convertible bonds (Note 34).

Notes to the Financial Statements

for the financial year ended 31 December 2005

(c) Currency risk

The carrying amounts of total borrowings are denominated in the following currencies:

FRS 32(60)(a)
FRS 32(63)(h)

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Singapore Dollar	76,397	48,914	76,322	33,200
United States Dollar	45,982	56,981	–	38,759
	122,379	105,895	76,322	71,959

(d) Interest rate risks

The weighted average effective interest rates of total borrowings at the balance sheet date are as follows:

FRS 32(67)(b)
FRS 32(74)(d)

The Group

	2005		2004	
	SGD	USD	SGD	USD
Bank overdrafts	3.0%	2.2%	2.2%	1.8%
Bank borrowings	2.8%	3.3%	2.5%	3.2%
Convertible bonds	9.0%	–	–	–
Redeemable preference shares	6.5%	–	6.5%	–
Finance lease liabilities	7.4%	–	7.0%	–

The Company

	2005		2004	
	SGD	USD	SGD	USD
Bank overdrafts	2.8%	–	2.2%	1.8%
Bank borrowings	2.6%	3.5%	–	3.2%
Convertible bonds	9.0%	–	–	–
Redeemable preference shares	6.5%	–	6.5%	–

The exposure of current and non-current borrowings to interest rate risks is disclosed in Note 45(b).

Notes to the Financial Statements

for the financial year ended 31 December 2005

(e) Carrying amounts and fair values

The carrying amounts of current borrowings approximate their fair values. The carrying amounts and fair values of non-current borrowings are as follow:

FRS 32(86)

The Group

	Carrying amounts		Fair Values	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Bank borrowings	39,228	59,850	38,193	57,135
Convertible bonds	42,822	–	42,752	–
Redeemable preference shares	30,000	30,000	28,450	28,850
Finance lease liabilities	805	375	800	370

The Company

	Carrying amounts		Fair Values	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Bank borrowings	–	31,759	–	29,987
Convertible bonds	42,822	–	42,752	–
Redeemable preference shares	30,000	30,000	28,450	28,850

The fair values are determined from a discounted cash flows analysis, using a discount rate based upon the borrowing rates which the directors expect would be available to the Group at the balance sheet date.

(f) Undrawn borrowing facilities¹

The Group and the Company have the following undrawn borrowing facilities:

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Floating rates				
- Expiring within one year	6,150	4,100	4,010	2,000
- Expiring beyond one year	14,000	8,400	6,000	5,220
Fixed rates				
- Expiring within one year	18,750	12,500	5,000	7,060
	38,900	25,000	15,010	14,280

The facilities expiring within one year are annual facilities subject to review at various dates during 2006. The other facilities have been arranged to help finance the Group's acquisition and proposed expansion in Asia.

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Borrowings

1. Disclosure of the undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities, is encouraged.

FRS 7(50)(a)

34. Convertible bonds

On 2 January 2005, the Company issued 5% convertible bonds at a nominal value of \$50,000,000. The bonds mature five years from the issue date at their nominal value of \$50,000,000 or can be converted into shares at the holder's option at the rate of 33 shares per \$500.

FRS 32(67)(b)

FRS 32(67)(a)

The fair value of the liability component, included in long-term borrowings, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves (Note 40(b)(v)), net of deferred income taxes.

FRS 32(64)
FRS 32(28)
FRS 32(31)

The convertible bond recognised in the balance sheet is calculated as follows:

	The Group and The Company		
	2005 \$'000	2004 \$'000	
Face value of convertible bond issued on 2 January 2005	50,000	—	
Equity conversion component (Note 40(b)(v))	(7,761)	—	FRS 12AppA(9)
Liability component on initial recognition at 2 January 2005	42,239	—	
Interest expense (Note 9)	3,083	—	
Interest paid	(2,500)	—	
Liability component at end of financial year (Note 33)	42,822	—	

The fair value of the liability component of the convertible bond at 31 December 2005 amounted to \$42,617,000. The fair value is calculated using cash flows discounted at a rate based on the borrowings rate of 7.5%.

FRS 32(86)

Interest expense on the convertible bond is calculated on the effective interest basis by applying the interest rate of 9.0% per annum for an equivalent non-convertible bond at the date of issue of the convertible bond to the liability component of the convertible bond.

FRS 32(67)(b)

35. Redeemable preference shares

On 4 January 2003, the Company issued 30 million cumulative redeemable preference shares with a par value of \$1 per share. The shares are mandatorily redeemable at their par value on 4 January 2012 or by the Company at any time before that date. The shares pay dividends at 6.5% per annum.

FRS 32(15)
FRS 32(18)(a)
FRS 32(67)(a,b)

Notes to the Financial Statements

for the financial year ended 31 December 2005

36. Finance lease liabilities

	The Group		
	2005	2004	
	\$'000	\$'000	
Minimum lease payments due:			FRS 17(31)(b)
- Not later than one year	164	84	
- Later than one year but not later than five years	615	319	
- Later than five years	517	227	
	1,296	630	
Less: Future finance charges	(371)	(180)	
Present value of finance lease liabilities	925	450	

The present value of finance lease liabilities may be analysed as follows:

FRS 17(31)(b)
FRS 32(67)(a)

	The Group	
	2005	2004
	\$'000	\$'000
Not later than one year (Note 33)	120	75
Later than one year (Note 33):		
- Later than one year but not later than five years	500	265
- Later than five years	305	110
	805	375
	925	450

Contingent rent is that portion of lease payments that is not fixed in amount but is based on a factor other than the passage of time. Contingent rent amounting to \$40,000 (2004: \$45,000), which is computed based on the annual inflation rate published by the Singapore Department of Statistics, has been recognised as an expense during the financial year.¹

FRS 17(31)(c)

Guidance Notes**Obligations under finance leases**

- Where they exist, disclosure should be made of the basis for determining contingent rent payments, renewal or purchase options and escalation clauses, and financing restrictions arising from leases such as those concerning dividends, additional debt, and further leasing.

FRS 17(31)(e)
(i-iii)

Notes to the Financial Statements

for the financial year ended 31 December 2005

37. Provisions for other liabilities and charges

FRS 1(75)(d)

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
<i>Current</i>					
Warranty (Note (a))	1,026	2,300	100	210	FRS 1(52,60)
Restructuring (Note (b))	1,100	–	–	–	
	2,126	2,300	100	210	
<i>Non-current</i>					
Legal claims (Note (c))	320	265	100	–	FRS 1(52,60)
Costs of dismantlement, removal or restoration (Note (d))	1,335	1,320	100	95	
	1,655	1,585	200	95	
Total	3,781	3,885	300	305	

(a) Warranty

The Group and the Company give two-year warranty on certain products and undertake to repair or replace items that fail to perform satisfactorily. A provision is recognised at the balance sheet date for expected warranty claims based on past experience of the level of repairs and returns.

FRS 37(85)(a)

Movements in provision for warranty are as follows:

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Balance at beginning of financial year	2,300	2,120	210	90	FRS 37(84)(a)
Currency translation differences	10	15	–	–	
Provision made during the financial year	210	275	70	170	FRS 37(84)(b)
Utilised during the financial year	(1,398)	(110)	(180)	(50)	FRS 37(84)(c)
Reclassified to disposal group	(96)	–	–	–	FRS 37(84)(a)
Balance at end of financial year	1,026	2,300	100	210	

The provision has been included in cost of sales in the income statement.

(b) Restructuring

The restructuring of the furniture segment will result in the loss of 110 jobs in total at two factories. An agreement has been reached with the local union representatives that specifies the number of staff involved and quantifies the amounts payable to those made redundant. Estimated staff costs amounting to \$840,000 have been recognised in the current financial year. Other restructuring expenses amounting to \$260,000 mainly comprise penalties on the early termination of leases on vacated property.

FRS 37(85)(a)

The provision for restructuring of \$1,100,000 is an update of the amount of \$800,000 recorded in the Group's interim financial report for the six months ended 30 June 2005, following the finalisation of certain restructuring costs in the second half of 2005. The provision for restructuring is expected to be fully utilised during the first half of 2006.²

FRS 34(26)

In conjunction with the restructuring exercise, a goodwill impairment charge of \$4,650,000 was recognised (Note 31).

FRS 36(130)(a)

Notes to the Financial Statements

for the financial year ended 31 December 2005

(c) Legal claims

Provisions for legal claims amount to \$320,000 (2004: \$265,000) and \$100,000 (2004: Nil) at the balance sheet date for the Group and the Company respectively. The provisions are in respect of certain legal claims brought against the Group by customers, and are expected to be utilised in 2007. In the opinion of the directors, after taking appropriate legal advice, the outcome of these legal claims is not expected to give rise to any significant loss beyond the amounts provided at 31 December 2005. The directors consider that disclosure of further details of these claims would seriously prejudice the Group's negotiating position and accordingly further information on the nature of the obligation has not been provided.

FRS 37(85)(a)

(d) Dismantlement, removal or restoration of property, plant and equipment

Provision for dismantlement, removal or restoration is the estimated costs of dismantlement, removal or restoration of property, plant and equipment arising from the acquisition or use of assets, which are capitalised and included in the cost of property, plant and equipment.

Movements in this provision are as follows:

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Balance at beginning of financial year	1,320	1,305	95	88	FRS 37(84)(a)
Unwinding of discount	15	15	5	7	FRS 37(84)(e)
Balance at end of financial year	<u>1,335</u>	<u>1,320</u>	<u>100</u>	<u>95</u>	FRS 37(84)(a)

Guidance Notes

Provisions for other liabilities and charges

1. Comparative information is not required for the movement of each class of provision but is encouraged.
2. If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate should be disclosed in a note to the financial statements for that financial year.

FRS 37(84)

FRS 34(26)

Notes to the Financial Statements

for the financial year ended 31 December 2005

38. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheets as follows:

FRS 12(74)

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Deferred income tax assets:					
- to be recovered within one year	(647)	(64)	-	-	
- to be recovered after one year	(2,672)	(3,046)	-	-	FRS 1(52,60)
	(3,319)	(3,110)	-	-	FRS 1(52,60)
Deferred income tax liabilities:					
- to be settled within one year	1,627	1,037	600	478	FRS 1(52,60)
- to be settled after one year	10,743	8,016	3,175	1,016	FRS 1(52,60)
	12,370	9,053	3,775	1,494	
	9,051	5,943	3,775	1,494	

The movement in the deferred income tax account is as follows:

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Balance at beginning of financial year	5,943	3,047	1,494	1,474
Effect of changes in accounting policies	221	-	8	-
Currency translation differences	(1,741)	22	-	-
Acquisition of a subsidiary (Note 13)	3,753	-	-	-
Disposal of a subsidiary (Note 13)	(2,037)	-	-	-
Tax charge/(credit) to:				
- Income statement (Note 10)	379	2,635	(119)	20
- Equity	2,533	239	2,392	-
Balance at end of financial year	9,051	5,943	3,775	1,494

The effect of changes in accounting policies affecting the balance at beginning of financial year is set out in Notes 3.5(a)(i) and 3.5(d)(ii).

Notes to the Financial Statements*for the financial year ended 31 December 2005*

Deferred income tax taken to equity (Note 40) during the financial year is as follows:

FRS 12(81)(a)

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Fair value reserves (Note 40(b)(ii))	112	–	31	–
Hedging reserve (Note 40(b)(iii))	42	–	33	–
Equity component of convertible bonds (Note 40(b)(v))	2,328	–	2,328	–
Asset revaluation reserve (Note 40(b)(vi))	51	239	–	–
	2,533	239	2,392	–

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of \$5,000,000 (2004: \$5,294,000) which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses and capital allowances in their respective countries of incorporation. These tax losses have no expiry date except for an amount of \$213,000 which will expire in 2007.

FRS 12(82)

FRS 12(81)(e)

Deferred income tax liabilities of \$170,000 (2004: \$127,500) have not been recognised for the withholding and other taxes that would be payable on the earnings of an overseas subsidiary when remitted to the holding company. The unremitted earnings are permanently reinvested and totalled \$2,000,000 at 31 December 2005 (2004: \$1,500,000).

FRS 12(81)(f)

Notes to the Financial Statements

for the financial year ended 31 December 2005

The movement in the deferred income tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

FRS 12(81)(g)(i)
FRS 12(81)(g)(ii)

The Group¹

Deferred income tax liabilities

	Accelerated tax depreciation \$'000	Fair value gain \$'000	Convertible bond \$'000	Others \$'000	Total \$'000
2005					
Balance at beginning of financial year	8,085	787	–	1,083	9,955
Effect on changes in accounting policies	–	221	–	–	221
Currency translation differences	(330)	(292)	–	(123)	(745)
Acquisition of a subsidiary	553	3,175	–	275	4,003
Disposal of a subsidiary	(2,037)	–	–	–	(2,037)
Charged/(credited) to:					
- Income statement	425	–	(193)	138	370
- Equity	–	205	2,328	–	2,533
Balance at end of financial year	6,696	4,096	2,135	1,373	14,300
2004					
Balance at beginning of financial year	6,058	272	–	284	6,614
Currency translation differences	241	276	–	–	517
Charged to:					
- Income statement	1,786	–	–	799	2,585
- Equity	–	239	–	–	239
Balance at end of financial year	8,085	787	–	1,083	9,955

Deferred income tax assets

	Provisions \$'000	Tax losses \$'000	Other \$'000	Total \$'000
2005				
Balance at beginning of financial year	(816)	(1,960)	(1,236)	(4,012)
Currency translation differences	(125)	(350)	(521)	(996)
Acquisition of a subsidiary	(250)	–	–	(250)
(Credited)/charged to income statement	(538)	1,000	(453)	9
Balance at end of financial year	(1,729)	(1,310)	(2,210)	(5,249)
2004				
Balance at beginning of financial year	(962)	(1,500)	(1,105)	(3,567)
Currency translation differences	(35)	(460)	–	(495)
Charged/(credited) to income statement	181	–	(131)	50
Balance at end of financial year	(816)	(1,960)	(1,236)	(4,012)

Notes to the Financial Statements

for the financial year ended 31 December 2005

The Company¹

FRS 12(81)(g)(i)
FRS 12(81)(g)(ii)

Deferred income tax liabilities

	Accelerated tax depreciation \$'000	Fair value gain \$'000	Convertible bonds \$'000	Total \$'000
2005				
Balance at beginning of financial year	1,469	75	–	1,544
Effect on changes in accounting policies	–	8	–	8
Charged/(credited) to:				
- income statement	113	–	(193)	(80)
- equity	–	64	2,328	2,392
Balance at end of financial year	1,582	147	2,135	3,864
2004				
Balance at beginning of financial year	1,413	75	–	1,488
Charged to:				
- income statement	56	–	–	56
Balance at end of financial year	1,469	75	–	1,544

Deferred income tax assets

	Provisions \$'000	Other \$'000	Total \$'000
2005			
Balance at beginning of financial year	(46)	(4)	(50)
Charged/(credited) to income statement	22	(61)	(39)
Balance at end of financial year	(24)	(65)	(89)
2004			
Balance at beginning of financial year	(20)	6	(14)
Credited to income statement	(26)	(10)	(36)
Balance at end of financial year	(46)	(4)	(50)

Guidance Notes

Deferred income taxes

Movements in deferred income tax assets and liabilities

1. Movements in deferred income tax assets and liabilities are required for the Group as well as the Company.

Changes in tax rates

2. Where material adjustments arise from the restatement of deferred income tax liabilities to take account of changes in tax rates, the corresponding amount taken to the income statement should be disclosed.

FRS 12(80)(d)

Notes to the Financial Statements

for the financial year ended 31 December 2005

39. Share capital, share premium and treasury shares

	← No. of shares →		← Amount →				FRS 1(76)(a) FRS 1(97)(a)
	Issued share capital '000	Treasury shares '000	Share capital \$'000	Share premium \$'000	Total share capital and share premium \$'000	Treasury shares \$'000	
2005							
Balance at beginning of financial year	21,000	–	21,000	12,294	33,294	–	
Proceeds from share issue	3,050	–	3,050	6,834	9,884	–	
Share issue expenses	–	–	–	(413)	(413)	–	
Purchase of treasury shares	–	(800)	–	–	–	(1,090)	
Balance at end of financial year	24,050	(800)	24,050	18,715	42,765	(1,090)	
2004							
Balance at beginning of financial year	20,000	–	20,000	12,024	32,024	–	
Proceeds from share issue	1,000	–	1,000	310	1,310	–	
Share issue expenses	–	–	–	(40)	(40)	–	
Balance at end of financial year	21,000	–	21,000	12,294	33,294	–	

The total authorised number of ordinary shares is 40 million shares (2004: 20 million shares) with a par value of \$1 per shares (2004: \$1 per share). All issued shares are fully paid.¹

FRS 1(76)(a)(ii)

The Company issued the following shares during 2005:

- The Company issued 2,300,000 ordinary shares of \$1 each at a premium of \$2.88 per share, for cash, on 1 March 2005 to provide funds for the expansion of the Group's operations.
- The Company issued 750,000 (2004: 1,000,000) shares pursuant to the options under the PwC Employee Share Option Scheme at an average price of \$1.28 (2004: \$1.31) each (See Note (b) below).

The newly issued shares rank pari passu in all respects with the previously issued shares.

FRS 1(76)(a)(v)

(a) Treasury shares

The Company has set up a Special Purpose Trust ("PwC Employee Trust") whose sole purpose is to purchase and hold the Company's shares acquired from the Singapore Exchange for re-issuing these shares to employees under the PwC Share Option Scheme. Such shares are designated as treasury shares.

FRS 32 (33)

The trust acquired 800,000 shares in the Company through purchases on the Singapore Exchange during the year. The total amount paid to acquire the shares was \$1,090,000 and this was deducted against shareholders' equity.

(b) Share options²

FRS 1(76)(a)(vii)
FRS 102(45)(a)

Share options are granted to key management and employees with more than three years of service under the PwC Employee Share Option Scheme, which became operative on 1 January 2003.

The exercise price of the granted options is equal to the average of the closing prices of the Company's ordinary shares on the Singapore Exchange for the five market days immediately preceding the date of grant. The vesting of granted options is conditional on the key management or employee completing another 18 months of service and the Group achieving its targets of profitability and sales growth.

Once the options are vested, they are exercisable for a contractual option term of 4 years. The options may be exercised in full or in part in respect of 1,000 shares or a multiple thereof, on the payment of the exercise price. The persons to whom the options have been issued, have no right to participate by virtue of the options in any share issue of any other company. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Notes to the Financial Statements

for the financial year ended 31 December 2005

On 1 January 2005, options on 964,000 shares with exercise price of \$2.95 per ordinary share were granted pursuant to the Scheme ("2005 Options"). The 2005 Options are exercisable from 1 July 2006 and expire on 30 June 2010.

FRS 1(76)(a)(vii)

Movements in the number of ordinary shares outstanding under options at the end of the financial year and their exercise prices are as follows:

FRS 102(45)(b)

← Number of ordinary shares under options outstanding →							
	At beginning of financial year	Granted during financial year	Forfeited during financial year	Exercised during year	At end of financial year	Exercise price	Exercise period
The Group and The Company							
2005							
2003 Options	12,000	-	-	(12,000)	-	\$1.31	-
2004 Options	4,732,000	-	-	(738,000)	3,994,000	\$1.28	1.7.2005 - 30.6.2009
2005 Options	-	964,000	-	-	964,000	\$2.95	1.7.2006 - 30.6.2010
	<u>4,744,000</u>	<u>964,000</u>	<u>-</u>	<u>(750,000)</u>	<u>4,958,000</u>		
2004							
2003 Options	1,212,000	-	(200,000)	(1,000,000)	12,000	\$1.31	1.7.2004 - 30.6.2008
2004 Options	-	4,965,000	(233,000)	-	4,732,000	\$1.28	1.7.2005 - 30.6.2009
	<u>1,212,000</u>	<u>4,965,000</u>	<u>(433,000)</u>	<u>(1,000,000)</u>	<u>4,744,000</u>		

Out of the outstanding options on 4,958,000 shares (2004: 4,744,000), options on 3,994,000 shares (2004: 12,000) are exercisable. Options exercised in 2005 resulted in 750,000 shares (2004: 1,000,000) being issued at an average price of \$1.28 (2004: \$1.31) each. The related transaction costs amounting to \$14,000 (2004: \$40,000) have been deducted against share premium account.

FRS 102(45)(b)(vii)
FRS 102(45)(c)

The fair value of options granted on 1 January 2005 determined using the Binomial valuation model was \$600,000 (2004: \$930,000). The significant inputs into the model were share price of \$3.00 (2004: \$1.30), at the grant date, exercise price shown above, standard deviation of expected share price returns of 30% (2004: 27%), option life shown above and annual risk-free interest rate of 5% (2004: 4%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

FRS 102(47)(a)

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for the financial year ended 31 December 2005

Guidance Notes

Share capital, share premium and treasury share

Capital that may be called up

1. Where applicable, disclosure is required of the amount of any capital that may be called up only in the event of winding up.

Employee equity compensation plan

2. An entity with an equity compensation plan needs to disclose, at a minimum, the following:
 - (a) a description of each type of share-based payment arrangement that existed at any time during the period, including the general terms and conditions of each arrangement, such as vesting requirements, the maximum term of options granted, and the method of settlement (e.g. whether in cash or equity). An entity with substantially similar types of share-based payment arrangements may aggregate this information, unless separate disclosure of each arrangement is necessary to satisfy the principle in FRS 102 paragraph 44. FRS 102(45)
 - (b) the number and weighted average exercise prices of share options for each of the following groups of options: FRS 102(45)(a)
 - (i) outstanding at the beginning of the period;
 - (ii) granted during the period;
 - (iii) forfeited during the period;
 - (iv) exercised during the period;
 - (v) expired during the period;
 - (vi) outstanding at the end of the period; and
 - (vii) exercisable at the end of the period. FRS 102(45)(b)
 - (c) for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may disclose the weighted average share price during the period instead. FRS 102(45)(c)
 - (d) for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life. If the range of exercise prices is wide, the outstanding options shall be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon exercise of those options. FRS 102(45)(d)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

3. An entity shall disclose information that enables users of the financial statements to understand how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined.

FRS 102(46)

Where the specified format of disclosure is not adopted, an enterprise with an equity compensation plan needs to disclose, at a minimum, the following:

FRS 102(47)

- (a) for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:

FRS 102(47)(a)

- (i) the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;
- (ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; and
- (iii) whether and how any other features of the option grant were incorporated into the measurement of fair value, such as a market condition.

- (b) for other equity instruments granted during the period (i.e. other than share options), the number and weighted average fair value of those equity instruments at the measurement date, and information on how that fair value was measured, including:

FRS 102(47)(b)

- (i) if fair value was not measured on the basis of an observable market price, how it was determined;
- (ii) whether and how expected dividends were incorporated into the measurement of fair value; and
- (iii) whether and how any other features of the equity instruments granted were incorporated into the measurement of fair value.

- (c) for share-based payment arrangements that were modified during the period:

FRS 102(47)(c)

- (i) an explanation of those modifications;
- (ii) the incremental fair value granted (as a result of those modifications); and
- (iii) information on how the incremental fair value granted was measured, consistently with the requirements set out in (a) and (b) above, where applicable.

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

4. An entity shall disclose information that enables users of the financial statements to understand the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

FRS 102(50)

The entity should disclose at least the following:

FRS 102(51)(a)

- (a) the total expense recognised for the period arising from share-based payment transactions in which the goods or services received did not qualify for recognition as assets and hence were recognised immediately as an expense, including separate disclosure of that portion of the total expense that arises from transactions accounted for as equity-settled share-based payment transactions;

FRS 102(51)(b)

- (b) for liabilities arising from share-based payment transactions:

- (i) the total carrying amount at the end of the period; and
- (ii) the total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (e.g. vested share appreciation rights).

Notes to the Financial Statements

for the financial year ended 31 December 2005

40. Revaluation and other reserves

FRS 1(97)(c)

	The Group		The Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a) Composition:				
Share option reserve	1,312	622	1,312	622
Fair value reserve	573	–	251	–
Hedging reserve	88	–	62	–
Currency translation reserve	4,006	2,324	–	–
Equity component of convertible bonds	5,433	–	5,433	–
Asset revaluation reserve	3,454	3,257	–	–
	14,866	6,203	7,058	622

(b) Movements:

FRS 1(97)(c)

(i) Share option reserve

Balance at beginning of financial year

- As previously reported

- Effects of adoption of FRS 102 adjusted retrospectively (Note 3.6)

- As restated

Employee share option scheme:

- Value of employee services

(Notes 7 and 39)

Balance at end of financial year

–	–
622	–
622	–

–	–
622	–
622	–

690	622
-----	-----

690	622
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1,312	622
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1,312	622
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FRS 1(97)(a)

(ii) Fair value reserve

Balance at beginning of financial year

- As previously reported

- Effects of adoption of FRS 39 adjusted prospectively (Note 3.5(a)(iii))

- As restated

Fair value gains on available-for-sale financial assets (Note 17)

Tax on fair value gains

Balance at end of financial year

–	–
125	–
125	–

–	–
127	–
127	–

560	–
-----	---

155	–
-----	---

(112)	–
-------	---

(31)	–
------	---

448	–
-----	---

124	–
-----	---

573	–
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251	–
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FRS 1(97)(c)

FRS 1(96)(b)

(iii) Hedging reserve

Balance at beginning of financial year

- As previously reported

- Effects of adoption of FRS 39 adjusted prospectively (Note 3.5(d)(ii))

- As restated

Cash flow hedges

Tax on fair value gain

Balance at end of financial year

–	–
24	–
24	–

–	–
12	–
12	–

106	–
-----	---

83	–
----	---

(42)	–
------	---

(33)	–
------	---

64	–
----	---

50	–
----	---

88	–
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62	–
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FRS 1(97)(c)

FRS 1(96)(b)

Notes to the Financial Statements

for the financial year ended 31 December 2005

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
(iv) Currency translation reserve					
Balance at beginning of financial year					
- As previously reported	2,324	2,454	(235)	(200)	
- Effects of adoption of FRS 21 adjusted retrospectively (Note 3.3(a))	–	–	235	200	FRS 1(97)(c) FRS 21(52)(b)
- As restated	2,324	2,454	–	–	
Release on disposal of a subsidiary (Note 13)	(1,200)	–	–	–	
Net currency translation differences of financial statements of foreign subsidiaries and borrowings designated as hedges against foreign subsidiaries	3,434	(170)	–	–	
Minority interest ¹	(552)	40	–	–	
	2,882	(130)	–	–	
Balance at end of financial year	4,006	2,324	–	–	
(v) Equity component of convertible bonds					
Convertible bond – equity component (Note 34)	7,761	–	7,761	–	FRS 1(97)(c)
Tax on liability component	(2,328)	–	(2,328)	–	FRS 12(81)(a)
Balance at end of financial year	5,433	–	5,433	–	
(vi) Asset revaluation reserve					
Balance at beginning of financial year	3,257	2,456	–	–	FRS 1(97)(c)
Revaluation of:					
- Investment properties (Note 27)	253	60	–	–	FRS 25(49)(g)
- Land and buildings (Note 30)	–	1,133	–	–	
Tax on revaluation gains	(51)	(239)	–	–	
Minority interest ¹	(5)	(153)	–	–	FRS 16(39)
	197	801	–	–	FRS 16(77)(f)
Balance at end of financial year	3,454	3,257	–	–	FRS 16(77)(f)

Revaluation and other reserves are non-distributable.²

Guidance Notes

Revaluation and other reserves

- Minority interest's share of reserve movement (net of tax), where applicable for the financial period should be separately disclosed.

Distributability of reserves

- Distributability or otherwise of the reserves would depend on the Articles of Association of the company.

Notes to the Financial Statements

for the financial year ended 31 December 2005

41. Retained earnings¹

FRS 1(76)(b)

(a) Retained profits of the Group and the Company are distributable except for accumulated retained profits of associated companies amounting to \$405,000 (2004: \$255,000) which are included in the Group's retained profits.

(b) Movements in retained earnings for the Company are as follows:

	The Company	
	2005	2004
	\$'000	\$'000
Balance at beginning of financial year		
- As previously reported	1,306	5,463
- Effect of changes in accounting policies		
- Adjusted retrospectively (Notes 3.3(a) and 3.6)	(857)	(203)
	449	5,260
- Adjusted prospectively (Note 3.5(d)(ii))	17	–
- As restated	466	5,260
Total profit	10,668	10,925
Dividends paid (Note 42)	(10,102)	(15,736)
Balance at end of financial year	1,032	449

Movement in retained earnings for the Group is shown in the Consolidated Statement of Changes in Equity.

Guidance Notes

Retained earnings

1. This disclosure note is voluntary. It is recommended as a good practice.

Notes to the Financial Statements

for the financial year ended 31 December 2005

42. Dividends

	The Group and The Company		
	2005 \$'000	2004 \$'000	
<i>Ordinary dividends paid or proposed</i>			
Final exempt (one-tier) dividend paid in respect of the previous financial year of 48.11 cents (2004: 74.93 cents) per share	10,102	15,736	FRS 1(95)

At the Annual General Meeting on 5 April 2006, a final exempt (one-tier) dividend of 41.58 cents per share amounting to a total of \$10,000,000 will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 December 2006.

FRS 1(125)
FRS 10(13)
FRS 12(81)(f)
FRS 10(12)

43. Contingencies

(a) Contingent liabilities¹

Details and estimates of maximum amounts of contingent liabilities (excluding those relating to investments in associated companies (Note 24) and investment in a joint venture (Note 25)) are as follows:

A claim for unspecified damages was lodged during the financial year against a subsidiary and certain of its executives in respect of damages allegedly caused by the use of a product supplied by the subsidiary. The subsidiary has disclaimed liability and is defending the action. Legal advice obtained indicates that it is unlikely that any significant liability will arise. The directors are of the view that no material losses will arise in respect of the legal claim at the date of these financial statements.

FRS 37(86)

(b) Contingent assets

In respect of the disposal of PwC Logistics Pte Ltd ("PwC Logistics") on 28 June 2005 (Note 8), additional consideration will be payable to the Group if the future performance of PwC Logistics reaches a certain level. No gain has been recognised during the financial year, as the receipt of the additional consideration is not virtually certain as it is dependent on the aggregate result of PwC Logistics for the 18-month period ending 31 December 2006.

FRS 37(89)

Guidance Notes

Contingencies

1. Disclosure of contingent liabilities is not required when the possibility of any outflow in settlement is remote.

Notes to the Financial Statements

for the financial year ended 31 December 2005

44. Commitments

(a) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements (excluding those relating to investments in associated companies (Note 24) and investment in a joint venture (Note 25)) are as follows:

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Property, plant and equipment	3,593	3,667	800	600	FRS 16(74)(c)
Development property	600	450	–	–	FRS 16(74)(c)
Intangible assets – software licences	460	474	200	100	FRS 38(122)(e)
	4,653	4,591	1,000	700	

(b) Operating lease commitments – where a group company is a lessee

The Group leases various factories and warehouses under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

FRS 17(35)(d)

The Group also leases various plant and machinery under cancellable operating lease agreements. The Group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the income statement during the financial year is disclosed in Note 6.

FRS 17(35)(d)

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

FRS 17(35)(a)

	The Group		The Company		
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	
Not later than one year	11,664	10,604	–	–	FRS 17(35)(a)(i)
Later than one year but not later than five years	45,651	45,651	–	–	FRS 17(35)(a)(ii)
Later than five years	15,710	27,374	–	–	FRS 17(35)(a)(iii)
	73,025	83,629	–	–	

(c) Operating lease commitments – where a group company is a lessor

The future minimum lease payments receivable under non-cancellable operating leases contracted for at the reporting date but not recognised as receivables, are as follows:

FRS 17(56)(a)

	The Group and The Company		
	2005 \$'000	2004 \$'000	
Not later than one year	48	52	FRS 17(56)(a)(i)
Later than one year but not later than five years	182	–	FRS 17(56)(a)(ii)
Later than five years	–	–	FRS 17(56)(a)(iii)
	230	52	

Notes to the Financial Statements

for the financial year ended 31 December 2005

45. Financial risk management^{1, 2, 3}

FRS 32(52)

Financial risk factors

The Group's activities expose it to a variety of financial risks: price risk (including currency risk, fair value interest rate risk and market risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquid funds.

(a) Price risk

FRS 32(52)(a)(i)

Currency risk

FRS 32(56)

The Group operates mainly in Asia and is exposed to various currency exposures, primarily with respect to the Renminbi, United States Dollar and Euro. Currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Currency risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. To manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities, entities in the Group use forward contracts, transacted with Group Treasury. Group Treasury is responsible for hedging the net position in each foreign currency by using external currency borrowings and forward currency contracts.

FRS 39(73)

The Group's risk management policy is to hedge between 60% and 80% of the net anticipated transactions (mainly export sales and import purchases) in each major currency for the subsequent 3 months, and approximately 90% (2004: 95%) of the net position of the recognised assets and liabilities in each major currency.

The Company has certain investments in foreign operations, whose net assets are exposed to currency translation risk. Currency exposure to the net assets of the Group's foreign operations in the People's Republic of China, Hong Kong, Cambodia and Thailand is managed primarily through borrowings denominated in the relevant foreign currencies.

Market risk

The Group is exposed to equity securities market risk because of the investments held.

FRS 32(52)(a)

Notes to the Financial Statements

for the financial year ended 31 December 2005

(b) Cash flow and fair value interest rate risks

FRS 32(52)(a)(ii)

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

FRS 32(60)(a)
FRS 32(71)

The Group's interest risk mainly arises from non-current borrowings. The Company's interest rate risks mainly arise from non-current borrowings and loans to subsidiaries. Borrowings and loans to subsidiaries at variable rates expose the Group and the Company to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain approximately 45% of its borrowings in fixed rate instruments.

FRS 32(67)
FRS 32(71)

The tables below set out the Group and the Company's exposure to interest rate risks. Included in the tables are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

The Group

	Variable rates		Fixed rates				Non-interest bearing	Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 December 2005								
Assets								
Cash and cash equivalents	1,322	-	20,084	-	-	-	822	22,228
Trade and other receivables	-	-	372	256	1,802	4,011	15,646	22,087
Other financial assets	-	-	7,720	3,720	8,372	5,443	29,258	54,513
Non-financial assets	-	-	-	-	-	-	200,296	200,296
Total assets	1,322	-	28,176	3,976	10,174	9,454	246,022	299,124
Liabilities								
Borrowings	1,365	5,288	2,871	-	82,855	30,000	-	122,379
Other financial liabilities	-	-	223	217	135	-	17,566	18,141
Non-financial liabilities	-	-	-	-	-	-	17,978	17,978
Total liabilities	1,365	5,288	3,094	217	82,990	30,000	35,544	158,498

Notes to the Financial Statements

for the financial year ended 31 December 2005

FRS 32(67)
FRS 32(71)

	Variable rates		Fixed rates				Non-interest bearing	Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
At 31 December 2004								
Assets								
Cash and cash equivalents	2,351	-	32,661	-	-	-	1,200	36,212
Trade and other receivables	-	-	760	559	1,419	1,375	21,341	25,454
Other financial assets	-	-	6,234	1,911	8,943	4,941	11,094	33,123
Non-financial assets	-	-	-	-	-	-	135,097	135,097
Total assets	2,351	-	39,655	2,470	10,362	6,316	168,732	229,886
Liabilities								
Borrowings	8,830	4,800	2,040	-	23,825	66,400	-	105,895
Other financial liabilities	-	-	-	-	-	-	12,160	12,160
Non-financial liabilities	-	-	-	-	-	-	14,464	14,464
Total liabilities	8,830	4,800	2,040	-	23,825	66,400	26,624	132,519

The Company

	Variable rates		Fixed rates				Non-interest bearing	Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
At 31 December 2005								
Assets								
Cash and cash equivalents	-	-	1,659	-	-	-	343	2,002
Trade and other receivables	3,136	-	253	115	1,228	2,632	3,600	10,964
Other financial assets	-	-	-	-	1,500	-	2,200	3,700
Non-financial assets	-	-	-	-	-	-	114,095	114,095
Total assets	3,136	-	1,912	115	2,728	2,632	120,238	130,761
Liabilities								
Borrowings	1,200	2,300	-	-	42,822	30,000	-	76,322
Other financial liabilities	-	-	-	-	-	-	664	664
Non-financial liabilities	-	-	-	-	-	-	4,010	4,010
Total liabilities	1,200	2,300	-	-	42,822	30,000	4,674	80,996

Notes to the Financial Statements

for the financial year ended 31 December 2005

FRS 32(67)
FRS 32(71)

	Variable rates		Fixed rates				Non-interest bearing	Total
	Less than 6 months	6 to 12 months	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 31 December 2004								
Assets								
Cash and cash equivalents	-	-	2,458	-	-	-	243	2,701
Trade and other receivables	3,200	-	110	77	495	251	1,267	5,400
Other financial assets	-	-	-	-	1,218	-	2,335	3,553
Non-financial assets	-	-	-	-	-	-	97,390	97,390
Total assets	3,200	-	2,568	77	1,713	251	101,235	109,044
Liabilities								
Borrowings	8,395	1,805	-	-	31,759	30,000	-	71,959
Other financial liabilities	-	-	-	-	-	-	744	744
Non-financial liabilities	-	-	-	-	-	-	1,976	1,976
Total liabilities	8,395	1,805	-	-	31,759	30,000	2,720	74,679

Notes to the Financial Statements

for the financial year ended 31 December 2005

Generally, the Group manages its cash flow interest rate risk from borrowings using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Occasionally, the Group enters into fixed-to-floating interest rate swaps to hedge the fair value of interest rate risk arising where it has borrowed at fixed rates in excess of the 60% target.

The exposure of current and non-current borrowings to interest rate risks is as follows:

FRS 32(67)
FRS 32(71)

	Variable rates		Fixed rates				Total \$'000
	Less than 6 months \$'000	6 to 12 months \$'000	Less than 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	
The Group							
At 31 December 2005							
Borrowings	1,365	5,288	2,871	-	82,550	30,305	122,379
Effect of interest rate swaps (Note 18)	(1,070)	(3,254)	-	-	-	4,324	-
	295	2,034	2,871	-	82,550	34,629	122,379
At 31 December 2004							
Borrowings	8,830	4,800	2,040	-	23,715	66,510	105,895
Effect of interest rate swaps	(3,839)	-	-	-	2,839	1,000	-
	4,991	4,800	2,040	-	26,554	67,510	105,895
The Company							
At 31 December 2005							
Borrowings	1,200	2,300	-	-	42,822	30,000	76,322
Effect of interest rate swaps (Note 18)	(1,080)	(1,090)	-	-	-	2,170	-
	120	1,210	-	-	42,822	32,170	76,322
At 31 December 2004							
Borrowings	8,395	1,805	-	-	31,759	30,000	71,959
Effect of interest rate swaps	(1,200)	-	-	-	200	1,000	-
	7,195	1,805	-	-	31,959	31,000	71,959

(c) Credit risk

FRS 52(b)

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution.

FRS 32(76)(a,b)

(d) Liquidity risk

The Group adopts prudent liquidity risk management by maintaining sufficient cash and marketable securities, having an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit facilities available (Note 33(f)).

FRS 32(52)(c)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Financial risk management

1. An enterprise which has a financial asset (e.g. cash and debtors), a financial liability (e.g. borrowings, including intercompany borrowings) or a financial instrument, is required to describe its financial risk management objectives and policies, including its policy for hedging each major type of forecasted transaction for which hedge accounting is used.
2. The level of detail to be disclosed is dependent on the extent of the financial risks faced by the enterprise. The disclosures illustrated are the suggested depth of disclosure to be made by enterprises which face significant financial risks.
3. Where an enterprise faces financial risks, but the extent of these financial risks is considerably restricted, the following disclosure should be considered:

FRS 32(52)

"The Company's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices and foreign currency exchange rates. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as currency risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity."

(i) Currency risk

The Company's business is exposed to currency risk arising from various currency exposures primarily with respect to [names of currencies]. The Company manages this risk by entering into currency forward contracts.

In general, the Company's policy is to enter into currency contracts of between []% and []% of anticipated export sales in each major currency for the following 12 months. It also manages the foreign currency exposure of its contract commitments for the purchase of certain production parts mainly from [names of countries] through the use of forward contracts. The forward contracts used in its programme mature in 18 months or less, consistent with the related purchase commitments.

(ii) Interest rate risk

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company has no significant interest-bearing assets. The Company policy is to maintain all its borrowings in fixed rate instruments.

(iii) Credit risk

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

(iv) Liquidity risk

The Company adopts prudent liquidity risk management by maintaining sufficient cash and marketable securities, and available funding through an adequate amount of committed credit facilities.

Notes to the Financial Statements

for the financial year ended 31 December 2005

46. Immediate and ultimate holding corporations^{1,2}

The Company's immediate holding corporation is Merlion Limited, incorporated in Singapore. The ultimate holding corporation³ is Lion Limited, incorporated in the United Kingdom.

FRS 1(126)(c)
FRS 24(12)
CA 201(10)

Guidance Notes

Immediate and ultimate holding corporations

1. This disclosure need not be included in the financial statements if it is disclosed elsewhere in information published with the financial statements.
2. A parent which is a wholly owned subsidiary or is a partially-owned subsidiary of another entity that need not present consolidated financial statements should disclose the name and country of incorporation or residence of the entity whose consolidated financial statements have been produced for public use; and the address where those consolidated financial statements are obtainable.
3. An entity shall disclose the name of the entity's parent and, if different, the ultimate controlling party. If neither the entity's parent nor the ultimate controlling party produces financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

FRS 1(126)(c)

FRS 27(10,41)

FRS 24(12)

Notes to the Financial Statements

for the financial year ended 31 December 2005

47. Related party transactions

The following transactions^{1,2} took place between the Group and related parties³ during the financial year:

FRS 24(17,22)

(a) Sales and purchases of goods and services

	The Group	
	2005	2004
	\$'000	\$'000
Sales of goods/services to associated companies:		
- PwC A Property (Hong Kong) Limited	1,800	1,792
- PwC A Furniture (Thailand) Ltd	470	729
	2,270	2,521
Purchases of materials from immediate holding corporation	601	504
Payments made on behalf and reimbursed by the immediate holding corporation	186	153
Professional fees paid to ABAS Consultancy Pte Ltd	212	149
Technical fees paid to Haven Pte Ltd	15	10

ABAS Consultancy Pte Ltd is a firm belonging to the wife of Mr Ang Boon Chew, a director of the Company. Haven Ltd is owned by P. Wallace, the Managing Director of the ultimate holding corporation.

FRS 24(17)

Outstanding balances at 31 December 2005, arising from sale/purchase of goods and services, are set out in Notes 14 and 32 respectively.

FRS 24(17)(b)

Notes to the Financial Statements

for the financial year ended 31 December 2005

(b) Key management personnel compensation^{4,5,6,7}

FRS 24(16)

Key management personnel compensation is as follows:

	The Group		
	2005	2004	
	\$'000	\$'000	
Salaries and other short-term employee benefits	2,200	1,890	FRS 24(16)(a)
Termination benefits	1,600	–	FRS 24(16)(d)
Post-employment benefits – contribution to CPF	123	85	FRS 24(16)(b)
Other long-term benefits	33	23	FRS 24(16)(c)
Share options granted	300	280	FRS 24(16)(e)
	4,256	2,278	

Including in above, total compensation to directors of the Company amounted to \$1,030,000 (2004: \$940,000).

The banding of directors' remuneration is disclosed in Note (c) of Additional Singapore Exchange Securities Trading Listing Manual Requirements.

(c) Loan to an associated company

The loan to an associated company, PwC A Property (Hong Kong) Limited, amounting to \$2,668,000 (2004: \$1,388,000), as set out in Note 14, is unsecured and repayable in full on 1 January 2007. Interest is payable at 2.2% per annum.

FRS 24(17,22)
FRS 32(60)(a)
FRS 32(63)
(a,b,f,g)

(d) Loans to subsidiaries

The loans to subsidiaries amounting to \$2,986,000 (2004:\$3,100,000), as set out in Note 21, are unsecured, bear interest at the three-month deposit rate plus 1.5% and will be repayable on 31 December 2009.

FRS 24(17,22)
FRS 32(60)(a)
FRS 32(63)
(a,b,f,g)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Related party transactions

Materiality

1. Related party relationships where control exists should be disclosed, irrespective of whether there have been transactions between the related parties.
2. It is particularly important to consider the nature of related party transactions. For example, services may be provided free of charge to a related party and a conclusion on whether the services provided are material can only be made by considering the nature of the transactions. If such items are deemed material, the provision of these free services should also be disclosed.

FRS 24(12)

Definition

3. The following are not necessarily related parties:
 - (a) two entities simply because they have a director or other member of key management personnel in common.
 - (b) two venturers simply because they share joint control over a joint venture.
 - (c) (i) providers of finance;
(ii) trade unions,
(iii) public utilities,
(iv) government departments and agencies, simply by virtue of their normal dealings with an entity; and
 - (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

FRS 24(11)

Key management personnel compensation

4. Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the reporting company. They include directors and officers of companies and close members of the families of such individuals.
5. Directors of subsidiaries are not automatically regarded as key management of the Group. Remuneration paid or accruing to such directors can be excluded from disclosure.
6. Compensation includes all employee benefits (as defined under FRS 19 and FRS 102) in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity.
7. Compensation to directors of the Company is separately disclosed for the purpose of the requirement of S 201(8) of the Companies Act.

FRS 24(9)

FRS 24(9)

CA 201(8)

Notes to the Financial Statements

for the financial year ended 31 December 2005

At 31 December 2005, the Group is organised into three main business segments:

FRS 14(81)

- Manufacture of component parts used in the electrical and electronic industry;
- Manufacture of household and commercial office furniture; and
- Construction of buildings and equipment.

Other operations of the Group mainly comprise of logistics services and investment holding, neither of which constitutes a separately reportable segment.

Inter-segment transactions are determined on an arm's length basis. Unallocated costs represent corporate expenses. Segment assets^{4,5} consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and exclude deferred tax assets, short-term bank deposits and other investments. Segment liabilities^{6,7} comprise operating liabilities and exclude items such as tax liabilities, bank borrowings, convertible bonds, redeemable preference shares and loan from ultimate holding corporation. Capital expenditure comprises additions to development property, property, plant and equipment and intangible assets, including those acquired through business combinations.

Secondary reporting format - geographical segments

FRS 14(81)

The Group's three business segments operate in four main geographical areas:

- Singapore - the Company is headquartered and has operations in Singapore. The operations in this area are principally manufacturing of component parts and furniture, construction of buildings and equipment, and investment holding;
- People's Republic of China - the operations in this area are principally manufacturing of furniture and provision of logistics services;
- Europe - the operations in this area are principally the sale of component parts and furniture; and
- Other countries - the operations in this area are principally manufacturing of component parts and investment holding.

With the exception of Singapore and the People's Republic of China, no other individual country contributed more than 10% of consolidated sales and assets. Sales are based on the country in which the customer is located. Total assets and capital expenditure are shown by the geographical area where the assets are located.

FRS 14(69)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Reference

	Sales for continuing operations		Sales for discontinued operations		Total sales		FRS 14(69)(a)
	2005	2004	2005	2004	2005	2004	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Singapore	117,872	70,060	832	2,868	118,704	72,928	
People's Republic of China	59,490	30,760	287	1,259	59,777	32,019	
Europe	25,597	11,168	72	457	25,669	11,625	
Other countries	7,255	372	9	16	7,264	388	
	210,214	112,360	1,200	4,600	211,414	116,960	

	Total consolidated assets		FRS 14(69)(b)
	2005	2004	
	\$'000	\$'000	
Singapore	127,413	109,800	
People's Republic of China	92,007	73,155	
Europe	–	–	
Other countries	24,793	5,870	
	244,213	188,825	
Associated companies (Note 24)	8,208	8,569	
Unallocated assets	46,703	32,492	
	299,124	229,886	

	Capital expenditure for continuing operations		Capital expenditure for discontinued operations		Total consolidated capital expenditure		FRS 14(69)(c)
	2005	2004	2005	2004	2005	2004	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Singapore	46,979	3,849	129	283	47,108	4,132	
People's Republic of China	25,138	2,908	72	127	25,210	3,035	
Europe	9,610	941	62	82	9,672	1,023	
Other countries	2,696	541	26	51	2,722	592	
	84,423	8,239	289	543	84,712	8,782	

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Segment information

Application

1. Segment information is required for companies whose equity or debt securities are publicly traded and for companies that are in the process of issuing equity or debt securities in public securities markets. In this example, the primary reporting format comprises of the business segments, while the secondary reporting format comprises of the geographical segments.

FRS 14(6)

Holding corporation

2. Segment information disclosures are not required in the financial statements of a holding corporation if the corresponding information is included in the consolidated financial statements.

FRS 14(16)

Segment results

3. Segment result is segment revenue less segment expense before any adjustments for minority interest. Segment expense does not include:
 - (i) interest, including interest incurred on advances or loans from other segments, unless the segment's operations are primarily of a financial nature;
 - (ii) losses on sales of investments or losses on extinguishment of debt unless the segment's operations are primarily of a financial nature;
 - (iii) an enterprise's share of losses of associates, joint ventures, or other investments accounted for under the equity method;
 - (iv) income tax expense; or
 - (v) general administrative expenses, head-office expenses, and other expenses that arise at the enterprise level and relate to the enterprise as a whole. However, costs are sometimes incurred at the enterprise level on behalf of a segment. Such costs are segment expenses if they relate to the segment's operating activities and they can be directly attributed or allocated to the segment on a reasonable basis.

FRS 14(16)

Segment assets

4. If a segment's result includes interest or dividend income, its segment assets include the related receivables, loans, investments, or other income-producing assets. Segment assets do not include income tax assets. Segment assets are determined after deducting related allowances that are reported as direct offsets in the enterprise's balance sheet.
5. Segment assets include investments accounted for under the equity method only if the profit or loss from such investments is included in segment revenue. Segment assets include a joint venturer's share of the operating assets of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with FRS 31 *Financial Reporting of Interests in Joint Ventures*.

FRS 14(16)

FRS 14(16)

Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Segment liabilities

6. If a segment's result includes interest expense, its segment liabilities include the related interest-bearing liabilities. Segment liabilities do not include income tax liabilities.
7. Segment liabilities include a joint venturer's share of the liabilities of a jointly controlled entity that is accounted for by proportionate consolidation in accordance with FRS 31 *Financial Reporting of Interests in Joint Ventures*.

FRS 14(16)

FRS 14(16)

Capital expenditure

8. Capital expenditure incurred to acquire segment assets that are expected to be used during more than one period can be aggregated for disclosure.
9. If the Company is in the business of developing properties for the purpose of sale, the development costs are excluded from capital expenditures.

Exceptional items

10. A company is encouraged, but not required to disclose the nature and amount of any items of segment revenue and segment expense that are of such size, nature, or incidence that their disclosure is relevant to explain the performance of each reportable segment for the period.

FRS 14(59)

Notes to the Financial Statements

for the financial year ended 31 December 2005

49. Event occurring after balance sheet date

On 25 February 2006, the Group issued \$2,300,000 6.5% SGD bonds to finance the purchase of an additional 40% interest in an associated company and new equipment in the construction segment. The bonds are repayable on 25 February 2011.

FRS 10(21)
FRS 10(22)(c)

On 1 March 2006, the Group acquired an additional 40% interest in PwC A Property (Hong Kong) Limited ("PwC Hong Kong"), an associated company incorporated in Hong Kong which is engaged in investment holding, for a cash consideration of \$3,500,000. The fair value of the Group's share of the net identifiable assets of PwC Hong Kong at the date of acquisition was \$2,500,000. PwC Hong Kong will be consolidated with effect from 1 March 2006.

FRS 10(21)
FRS 10(22)(a)
FRS 103(66)(b)

50. New accounting standards and FRS interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2006. The Group's assessment of those standards and interpretations that are relevant to the Group is set out below.

FRS 8 (30)(a)

(a) FRS 40 *Investment Property*

FRS 8 (30)(a)

The Group will adopt FRS 40 on 1 January 2007, which is the effective date of the Standard.

FRS 8 (30)(b)

Currently, investment properties are accounted for under FRS 25 *Investments* as set out in Note 2.9. Under FRS 40, changes in fair values of investment properties are required to be included in the income statement. On transition to FRS 40 on 1 January 2007, the amount accumulated in the asset revaluation reserve at 31 December 2005 of \$3,454,000 will be adjusted against the opening retained earnings at 1 January 2006.

FRS 8(30)(a)

(b) INT FRS 104 *Determining whether an Asset Contains a Lease*

FRS 8(30)(b)

The Group will adopt INT FRS 104 on 1 January 2006, which is effective date of the Interpretation. Implementation of INT FRS 104 is not expected to significantly affect the financial statements for the year ended 31 December 2005.

51. Authorisation of financial statements

FRS 10(17)

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of PwC Holdings Limited on 18 March 2006.

Notes to the Financial Statements

for the financial year ended 31 December 2005

52. Listing of significant² companies in the Group

Name of companies	Principal activities	Country of business/ incorporation	Equity holding	
			2005 %	2004 %
Significant subsidiaries held by the Company				
PwC Construction Pte Ltd ^(a)	Construction of buildings and equipment	Singapore	100	100
PwC Property (Singapore) Pte Ltd ^(a)	Investment holding	Singapore	100	100
PwC Furniture (PRC) Pte Ltd ^(d)	Manufacture of furniture	People's Rep. of China	85	85
PwC Components (Singapore) Pte Ltd ^(c)	Manufacture of component parts	Singapore	65	65
PwC Components (Philippines) Pte Ltd ^{(b),(h)}	Manufacture of component parts	Philippines	70	–
PwC Logistics Pte Ltd	Provision of logistics services	Singapore	–	100
PwC Omikron Sdn Bhd ^(c)	Manufacture of glass	Malaysia	100	100
PwC Employee Trust ⁽ⁱ⁾	Administer share option schemes	Singapore	–	–
Significant joint venture held by the Company				
PwC JV Logistics (PRC) Ltd ^{(d),(h)}	Provision of logistics services	People's Rep. of China	60	60
Significant associated companies held by the Company				
PwC A Property (Hong Kong) Limited ^(e)	Investment holding	Hong Kong	35	35
PwC A Furniture (Thailand) Ltd ^(e)	Manufacture of furniture	Thailand	<u>25</u>	<u>25</u>

FRS 31(56)

(a) Audited³ by PricewaterhouseCoopers, Singapore

SGX 715-718

(b) Audited³ by PricewaterhouseCoopers, Philippines(c) Audited³ by Tan & Co., Malaysia(d) Audited³ by Lim & Koh Partnership, China(e) Not required to be audited³ under the laws of the country of incorporation(f) Not consolidated as the entity is not controlled by the Group¹

FRS 27(40)(d)

(g) Deemed to be a joint venture as the Group shares the control of the entity¹(h) Financial year ends on 30 September⁴

(i) Deemed to be a subsidiary as the Group controls the entity

CA 200(1)
FRS 27(26)

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Notes to the Financial Statements

for the financial year ended 31 December 2005

Guidance Notes

Listing of significant companies in the Group

1. Where applicable, the following should be disclosed:
 - (a) the nature of the relationship between the parent and a subsidiary when the parent does not own, directly or indirectly through subsidiaries, more than half of the voting power; FRS 27(40)
 - (b) the reasons why the ownership, directly or indirectly through subsidiaries, of more than half of the voting or potential voting power of an investee does not constitute control;
 - (c) the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; and
 - (d) the nature and extent of any significant restrictions on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.

2. When separate financial statements are prepared for a parent that, in accordance with FRS 27 Paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose: FRS 27(41)
 - (a) the fact that the financial statements are separate financial statements; that the exemption from consolidation has been used; the name and country of incorporation or residence of the entity whose consolidated financial statements have been produced for public use; and the address where those consolidated financial statements are obtainable;
 - (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and
 - (c) a description of the method used to account for the investments listed under (b).

3. When a parent (other than a parent covered in Note 2), venturer with an interest in a jointly controlled entity or an investor in an associate prepares separate financial statements, those separate financial statements shall disclose: FRS 27(42)
 - (a) the fact that the statements are separate financial statements and the reasons why those statements are prepared if not required by law;
 - (b) a list of significant investments in subsidiaries, jointly controlled entities and associates, including the name, country of incorporation or residence, proportion of ownership interest and, if different, proportion of voting power held; and
 - (c) a description of the method used to account for the investments listed under (b);

and should identify the financial statements prepared in accordance with FRS 27 Paragraph 9, FRS 28 and FRS 31 to which they relate.

4. The term "significant" is not defined in FRS. However, in the SGX-ST Listing Manual, a subsidiary or associated company is considered significant if its net tangible assets represent 20% or more of the issuer's consolidated net tangible assets, or its pre-tax profits account for 20% or more of the issuer's consolidated pre-tax profits. In the absence of a formal definition in FRS, it is preferable to thus adopt this definition set out in the SGX-ST Listing Manual. SGX 718

5. Companies listed on the Singapore Exchange are also required to disclose name(s) of auditing firm(s) of: SGX 717
 - (a) Singapore-incorporated subsidiaries and significant associated companies; and
 - (b) significant foreign subsidiaries and associated companies.

6. It should be noted that a holding company is required to ensure that the financial year of its subsidiaries coincides with its financial year within two years under the Companies Act. CA 200(1)