

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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

## 1. General information <sup>1,2</sup>

PwC Holdings Ltd (the “Company”) is incorporated and domiciled in Singapore. The address of its registered office <sup>3</sup> is 350 Harbour Street, PwC Centre, #30–00, Singapore 049929.

FRS 1 (126)(a)

The Company is listed on the Singapore Exchange.

The principal activities of the Company are the manufacturing of component parts used in the electrical and electronics industry, and investment holding. The principal activities of its subsidiaries are the manufacturing of component parts used in the electrical and electronics industry, the manufacturing of furniture, and the construction of buildings and equipment. During the financial year, the Group acquired control of XYZ Electronics Group [now known as PwC Components (Philippines) Group], an electronics components manufacturing group operating in the Philippines (Note 26). The glass business segment was discontinued during the financial year (Note 11).

FRS 1 (126)(b)

### Guidance Notes

#### General information

- The following items need not be disclosed in the financial statements if they are disclosed elsewhere in information published with the financial statements (e.g. Annual Report):
  - the domicile and legal form of the company, its country of incorporation and the address of the registered office;
  - a description of the nature of the company’s operations and its principal activities; and
  - the name of the parent company and the ultimate parent company of the group.
- If the Company changes its name during the financial year, this change should be disclosed as suggested below:
 

*“With effect from [effective date of change], the name of the Company was changed from XYZ Pte Ltd to ZYX Pte Ltd.”*
- If the principal place of business is different from the registered office, the former should be disclosed.

FRS 1 (126)

FRS 1 (46)(a)

FRS 1 (126)(a)

## 2. Significant accounting policies <sup>1,2</sup>

FRS 1 (103)(a)

### 2.1 Basis of preparation <sup>25,26</sup>

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”) <sup>3,4</sup>. 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 certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

FRS 1 (113)  
FRS 1 (116)

# Notes to the Financial Statements

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## Interpretations and amendments to published standards effective in 2006 <sup>6</sup>

On 1 January 2006, the Group adopted the new or revised FRS and Interpretations to FRS (INT FRS) that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS.

FRS 8 (28)(b)

The following are the FRS and INT FRS that are relevant to the Group <sup>6</sup>:

FRS 8 (28)(a)

FRS 19 (Amendment)	Employee Benefits
FRS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates
FRS 32 (Amendment)	Financial Instruments: Disclosures and Presentation
FRS 39 (Amendment)	Financial Guarantee Contracts
INT FRS 104	Determining whether an Arrangement contains a Lease

The adoption of the above FRS or INT FRS did not result in any substantial changes to the Group's accounting policies, except for the adoption of FRS 39 (Amendment), of which the effect is disclosed in Note 3.

## 2.2 Revenue recognition

FRS 18 (35)(a)

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Revenue is presented, net of value-added 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 sales of goods is recognised when a Group entity has delivered the products to the customer, the customer has accepted the products and the collectibility of the related receivables is reasonably assured.

FRS 18 (14)

Furniture products 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 in 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. Please refer to the paragraph "Construction Contracts" for the accounting policy for revenue from construction contracts.

FRS 18 (20)

### (c) Interest income

Interest income, including income arising from finance leases and other financial instruments, 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 the original effective interest rate of the instrument, and continues amortising the discount as interest income on the recoverable amount.

FRS 18 (30)(a)

# Notes to the Financial Statements

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## (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 and property, plant and equipment is recognised on a straight-line basis over the lease term.

FRS 17 (50)

## 2.3 Group accounting <sup>7</sup>

### (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 by the Group. 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 value on the date of acquisition, irrespective of the extent of any minority interest. Please refer to the paragraph "Intangible assets – Goodwill" 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. They are de-consolidated from the date on which control ceases.

FRS 27 (30)

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group <sup>8</sup>.

FRS 27 (24)

FRS 27 (29)

Minority interests are 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 interests in a subsidiary exceed the minority interests in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minority interests are attributed to the equity holders of the Company, unless the minority interests have a binding obligation to, and are able to, make good the losses. When that subsidiary subsequently reports profits, the profits applicable to the minority interests are attributed to the equity holders of the Company until the minority interests' share of losses previously absorbed by the equity holders of the Company have been recovered.

FRS 27 (4)

FRS 27 (22)(c)

FRS 27 (35)

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Please refer to the paragraph “Investments in subsidiaries, joint ventures and associated companies” for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

## (b) Transactions with minority interests<sup>9,10</sup>

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests, which result in gains and losses for the Group, are recorded in the income statement. The difference between any consideration paid to minority interests for purchases of additional equity interest in a subsidiary and the incremental share of the carrying value of the net assets of the subsidiary is recognised as goodwill.

## (c) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanied by 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 impairment loss) identified on acquisition. Please refer to the paragraph “Intangible assets – Goodwill” for the Group’s accounting policy on goodwill.

FRS 28 (2)

FRS 28 (6)

FRS 28 (13)

FRS 28 (23)(a)

Investments in associated companies are initially recognised at cost. The cost of an acquisition is measured at 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.

FRS 28 (11)

In applying the equity method of accounting, the Group’s share of its associated companies’ post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in equity directly. These post-acquisition movements are adjusted against the carrying amount of the investment. 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 obligations or has made payments on behalf of the associated company.

FRS 28 (11)

FRS 28 (29)

FRS 28 (30)

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. Accounting policies of associated companies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.<sup>7</sup>

FRS 28 (22)

FRS 28 (26)

Please refer to the paragraph “Investment in subsidiaries, joint ventures and associated companies” for the accounting policy on investments in associated companies in the separate financial statements of the Company.

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## (d) Joint ventures

The Group's joint ventures are entities over which the Group has contractual arrangements to jointly share the control over the economic activity of the entities with one or more parties. The Group's interest in joint ventures is accounted for in the consolidated financial statements using proportionate consolidation.<sup>11</sup>

FRS 31 (3)

FRS 31 (30)

Proportionate consolidation involves combining the Group's share of the joint ventures' income and expenses, assets and liabilities and cash flows of the jointly-controlled entities on a line-by-line basis with similar items in the Group's financial statements.

FRS 31 (34)

When the Group sells assets to a joint venture, the Group recognises only the portion of unrealised gains or losses on the sale of assets that is attributable to the interest of the other venturers. The Group recognises the full amount of any loss when the sale provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

FRS 31 (48)

When the Group purchases assets from a joint venture, it does not recognise its share of the profits of the joint ventures arising from the Group's purchase of assets 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.

FRS 31 (49)

Accounting policies of joint ventures have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.<sup>7</sup>

Please refer to the paragraph "Investment in subsidiaries, joint ventures and associated companies" for the accounting policy on investments in joint ventures in the separate financial statements of the Company.

## 2.4 Property, plant and equipment

### (a) Measurement

#### (i) Land and buildings

FRS 16 (15)

Land and buildings are initially recognised at cost.

Freehold land is subsequently carried at fair value less accumulated impairment losses. Buildings and leasehold land are subsequently carried at fair value less accumulated depreciation and accumulated impairment losses.

FRS 16 (31)

Fair values of land and buildings are determined by independent professional valuers on a triennial basis and whenever their carrying amounts are likely to differ materially from their fair values<sup>12</sup>. 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.

FRS 16 (32)

FRS 16 (34)

FRS 16 (35)(b)

# Notes to the Financial Statements

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Increases in carrying amount arising from revaluation are credited to the asset revaluation reserve, unless they offset previous decreases in the carrying amount of the same asset, in which case, they are credited to the income statement. Decreases in carrying amounts that offset previous increases of the same asset are charged against the asset revaluation reserve. All other decreases in carrying amounts are charged to the income statement.

FRS 16 (39)

FRS 16 (40)

## (ii) Other property, plant and equipment

All other items of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

FRS 16 (15,30)

## (iii) Components of costs

The cost of an item of property, plant and equipment includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The projected cost of dismantlement, removal or restoration is also included as part of the cost of property, plant and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset. Cost may also include any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment that are transferred from the hedging reserve.

FRS 16 (16)(a,b)

FRS 16 (16)(c)

FRS 39 (98)(b)

## (b) Depreciation

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

FRS 16 (73)(b)

FRS 16 (73)(c)

	<u>Useful lives</u>
Buildings and leasehold land	30 – 50 years
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. The effects of any revision of the residual values and useful lives are included in the income statement for the financial year in which the changes arise.

FRS 16 (51)

## (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 only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Other subsequent expenditure is recognised as repair and maintenance expense in the income statement during the financial year in which it is incurred.

FRS 16 (7)

FRS 16 (12)

# Notes to the Financial Statements

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## (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 directly.

FRS 16 (68)

FRS 16 (71)

FRS 16 (41)

## 2.5 Development properties <sup>13</sup>

Development properties are properties being constructed or developed for future rental. They are carried at cost less accumulated impairment losses until construction or development is completed, at which time they are 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.

## 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 of the Group's share of the identifiable net assets of the acquired subsidiaries, joint ventures or associated companies at the date of acquisition.

FRS 103 (51)

#### (i) Acquisitions pre - 1 January 2001

Goodwill on acquisitions was adjusted against retained earnings <sup>14</sup> in the year of acquisition.

The Group also had acquisitions where the costs of acquisitions were less than fair value of the net identifiable assets acquired. Such differences ("negative goodwill" <sup>13</sup>) 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)

#### (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 the carrying amount of 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.

Goodwill recognised separately as intangible assets is tested at least annually for impairment and carried at cost less accumulated impairment losses.

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)(a)



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## (b) Trademarks and licences

Trademarks and licences acquired as part of business combinations are initially recognised at their fair values at the acquisition date and are subsequently carried at cost (i.e. the fair values at initial recognition) less accumulated amortisation and accumulated impairment losses. These costs are amortised to the income statement using the straight-line method over 15 to 20 years, which is the shorter of their estimated useful lives and periods of contractual rights.

FRS 38 (33)

FRS 38 (74)

FRS 38 (118)(a,b)  
FRS 38 (94,97)

## (c) Computer software

Acquired computer software licences are initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributed cost of preparing the asset for its intended use. 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 the computer software are recognised as an expense as incurred.

FRS 38 (24)

FRS 38 (27)

Capitalised computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to the income statement using the straight-line method over their estimated useful lives of three to five years.

FRS 38 (74)  
FRS 38 (97)  
FRS 38 (118)(a,b)

The amortisation period and amortisation method of intangible assets other than goodwill are reviewed at least at each balance sheet date. The effects of any revision of the amortisation period or amortisation method are included in the income statement for the financial year in which the changes arise.

FRS 38 (104)

## 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 cost capitalised 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)

Contract costs are recognised when incurred.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date (percentage-of-completion method). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract

FRS 11 (22)

FRS 11 (32)



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costs incurred that are likely to be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

FRS 11 (36)

Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is only included in contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim.

FRS 11 (39)(b)  
FRS 11 (11)  
FRS 11 (13,14)

The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract. 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 on the balance sheet unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognised as an expense immediately.

FRS 11 (39)(c)  
FRS 11 (31)

At the balance sheet date, the aggregated costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where costs incurred plus the recognised profits (less recognised losses) exceed progress billings, the balance is presented as due from customers on construction contracts, within "trade and other receivables". Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is presented as due to customers on construction contracts within "trade and other payables".

FRS 11 (43)

FRS 11 (44)

Progress billings not yet paid by customers and retentions are included within "trade and other receivables".

## 2.9 Investment properties

Investment properties of the Group, principally comprising residential buildings, are held for long-term rental yields and capital appreciation and are not occupied by the Group. Investment properties are classified as non-current investments and are stated at revalued amounts, representing the 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)

Increases in carrying amounts arising from revaluation are credited to the asset revaluation reserve, unless they offset previous decreases in the carrying amount of the same investment<sup>15</sup>, in which case, they are credited to the income statement. Decreases in carrying amounts that offset previous increases of the same investment asset are charged against the asset revaluation reserve. All other decreases in carrying amounts are charged to the income statement.

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

A property that is being constructed or developed for future use as an investment property is classified as "development property" until construction or development is completed, at which time it is 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 outstanding in the asset revaluation reserve relating to that investment property is also transferred to the income statement<sup>16</sup>.

FRS 25 (33)

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## 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 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 amounts of the investments are taken to the income statement.

FRS 25 (49)(a)(i)

## 2.11 Impairment of non-financial 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 arising from the business combination.

FRS 36 (80)

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of a 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 of a CGU 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)

An impairment loss on goodwill is recognised in the income statement and is not reversed in a subsequent period.

FRS 36 (60)  
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 the 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.

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.

FRS 36 (59)

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. Please refer to the paragraph "Property, plant and equipment" for the treatment of revaluation decrease.

FRS 36 (60)

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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 asset's 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. However, to the extent that an impairment loss on the same revalued asset was previously recognised in the income statement, a reversal of that impairment is also recognised in the income statement.

FRS 36 (114)

FRS 36 (117)

FRS 36 (119)

## 2.12 Financial assets

### (a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale. 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. The designation of financial assets at fair value through profit or loss is irrevocable.

FRS 39 (9)

FRS 39 (50)

#### (i) Financial assets, at fair value through profit or loss<sup>24</sup>

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 as held for trading if acquired principally for the purpose of selling in the short term. Financial assets designated as at fair value through profit or loss at inception are those that are managed, and their performance are evaluated on a fair value basis, in accordance with a documented Group's investment strategy. 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 32 (66)(d)(i,ii)

#### (ii) Loans and receivables

FRS 1 (57,59)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those maturing later than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are classified within "trade and other receivables" and "cash and cash equivalents" on the balance sheet (Note 2.13).

FRS 39 (9)

#### (iii) Financial assets, held-to-maturity

Financial assets, held-to-maturity 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.

FRS 39 (9)

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## (iv) Financial assets, available-for-sale

Financial assets, available-for-sale 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 1 (57)

## (b) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets 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)

FRS 39 (17,20)

On sale of a financial asset, the difference between the net sale proceeds and its carrying amount is taken to the income statement. Any amount in the fair value reserve relating to that asset is also taken to the income statement.

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 is recorded as borrowings.

FRS 39 (20)

## (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. Transaction costs for financial assets at fair value through profit and loss are recognised in the income statement.

FRS 39 (43)

## (d) Subsequent measurement

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

FRS 39 (46)

Gains or losses arising from changes in the fair value of “financial assets, at fair value through profit or loss”, including interest and dividend income, are presented in the income statement within “other gains – net” in the financial year in which the changes in fair values arise.

FRS 39 (55)(a)

Changes in the fair value of monetary assets denominated in a foreign currency and classified as available-for-sale are analysed into translation differences resulting from changes in amortised cost of the asset and other changes. The translation differences are recognised in the income statement, and other changes are recognised in the fair value reserve within equity. Changes in fair values of other monetary and non-monetary assets that are classified as available-for-sale are recognised in the fair value reserve within equity.

FRS 39 (AG83)

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Interest on financial assets, available-for-sale, calculated using the effective interest method, is recognised in the income statement. Dividends on available-for-sale equity securities are recognised in the income statement when the Group's right to receive payment is established. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in the fair value reserve within equity are included in the income statement as "gains and losses from investment securities".

FRS 39 (55)(b)

## (e) 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.

FRS 39 (58)

### (i) Loans and receivables

An allowance for impairment of loans and receivables, including trade and other receivables, is recognised 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. 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 for impairment is recognised in the income statement within "Administrative expenses".

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

### (ii) Financial assets, held-to-maturity

If there is objective evidence that an impairment loss on held-to-maturity financial assets has incurred, the carrying amount of the asset is reduced by an allowance for impairment. This allowance, calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate, is recognised in the income statement in the period in which the impairment occurs.

FRS 39 (63)

Impairment loss is reversed through the income statement. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

FRS 39 (65)

### (iii) Financial assets, available-for-sale

In the case of an equity security classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired.

FRS 39 (60)

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that has been recognised directly in the fair value reserve is removed from the fair value reserve within equity and recognised in the income statement. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in income statement.

FRS 39 (67)

FRS 39 (68)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

Impairment losses on debt instruments classified as available-for-sale financial assets are reversed through the income statement. However, impairment losses recognised in the income statement on equity instruments classified as available-for-sale financial assets are not reversed through the income statement.

FRS 39 (70)

FRS 39 (69)

## 2.13 Financial guarantees

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantee contracts as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

FRS 39 (9)

Financial guarantee contracts are initially recognised at their fair values plus transaction costs.

FRS 39 (43)

Financial guarantee contracts are subsequently amortised to the income statement over the period of the subsidiaries' borrowings, unless the Company has incurred an obligation to reimburse the bank for an amount higher than the unamortised amount.

FRS 39 (47)(c)

In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

## 2.14 Borrowings

### (a) Borrowings

Borrowings are initially recognised 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 recognised in 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 12 months after the balance sheet date are presented as current borrowings even though the original term was for a period longer than 12 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 12 months after the balance sheet date are presented as non-current borrowings in the balance sheet.

FRS 1 (60,63)

### (b) Redeemable preference shares <sup>17</sup>

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

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

### (c) Convertible bonds

When convertible bonds are issued, the liability component and the equity component are separately presented on the balance sheet. The liability component is recognised at its fair value determined using a market interest rate for equivalent non-convertible bonds. It is subsequently carried at amortised cost until the liability is extinguished on conversion or redemption of the bonds.

FRS 32 (60)(b)

FRS 32 (28)

FRS 32 AG31 (a)



# Notes to the Financial Statements

for the financial year ended 31 December 2006

The remainder of the proceeds of the bond issue is allocated to the conversion option (equity component), which is presented in shareholders' equity, net of the deferred tax effect. The carrying amount of the conversion option is not changed in subsequent periods. 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 and other payables

FRS 39 (43,47)

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

## 2.16 Derivative financial instruments and hedging activities

FRS 39 (43,47)  
FRS 39 (71)

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its 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 firm commitments denominated in foreign currencies (fair value hedge); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operation (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 strategies for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

FRS 32 (56,58)  
FRS 32 (59)  
FRS 32 (88)

The full fair value of a hedging derivative is presented as a non-current asset or liability if the remaining hedge item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months. Fair values of trading derivatives are presented as current assets or liabilities.

### (a) Fair value hedge

The Group has entered into forward currency contracts that are fair value hedges for currency risk arising from its firm commitments for purchases and sales denominated in foreign currencies (hedged item). The changes in fair value of the hedged item attributable to currency risk are recognised in the income statement. The changes in fair value relating to the effective portion of the designated hedging forward currency contracts are recognised in the income statement within the same line item as the gains and losses from the hedged item. The changes in fair values relating to the ineffective portion of the forward currency contracts are recognised in the income statement.

FRS 39 (89)

### (b) Cash flow hedge<sup>18</sup>

#### (i) Interest rate swaps

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

FRS 39 (95)



# Notes to the Financial Statements

for the financial year ended 31 December 2006

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 changes in fair values relating to the effective portion of the 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 changes in fair values relating to the ineffective portion of the interest rate swaps are recognised immediately in the income statement within “other gains – net”.

FRS 39 (95,97,98)

## (ii) *Forward currency contracts*

The Group has entered into forward currency contracts that qualify as cash flow hedges against highly probable forecasted transactions in foreign currencies. The changes in fair values relating to the effective portion of the forward currency contracts are recognised in the hedging reserve within equity and transferred to either the cost of hedged non-monetary asset upon acquisition or the income statement when the hedged expenses are incurred.

The changes in fair values relating to the ineffective portion of the forward currency contracts are recognised immediately in the income statement. When a forecasted transaction is no longer expected to occur, the gains and losses that were previously recognised in the hedging reserve are transferred to the income statement immediately.

## (c) *Net investment hedge*

FRS 39 (102)

The Group has foreign currency borrowings that qualify as net investment hedges of foreign operations. These hedging instruments are accounted for similarly to cash flow hedges. Any currency translation differences on the borrowings relating to the effective portion of the hedge are recognised in the currency translation reserve within equity. The currency translation differences relating to the ineffective portion of the hedge are 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.

## (d) *Derivatives that do not qualify for hedge accounting*

Fair value changes for derivative instruments that do not qualify for hedge accounting are included in the income statement in the financial year when the changes arise.

## 2.17 Fair value estimation

The carrying amounts of current financial assets and liabilities, carried at amortised cost, are assumed to approximate their fair values.

FRS 39 (86)  
FRS 39 (88)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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

FRS 32 (92)

The fair values of financial instruments that are not traded in an active market are 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. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as estimated discounted cash flows, are also used to determine the fair values of the financial instruments.

The fair values of financial liabilities carried at amortised cost are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group for similar financial liabilities.

## 2.18 Leases

### (1) When a group company is the lessee:

The Group leases certain property, plant and equipment from third parties.

#### *Finance leases*

Leases of property, plant and equipment where the Group assumes substantially the risks and rewards of ownership are classified as finance leases.

FRS 17 (4)

The leased assets and the corresponding lease liabilities (net of finance charges) under finance leases are recognised on the balance sheet as property, plant and equipment and borrowings respectively at the inception of the leases at the lower of the fair values of the leased assets and the present values of the minimum lease payments.

FRS 17 (20)

Each lease payment is apportioned between the finance charge and the reduction of the outstanding lease liability. The finance charge is recognised in the income statement and allocated to each period during the lease term so as to achieve a constant periodic rate of interest on the remaining balance of the finance lease liability.

FRS 17 (25)

Contingent rents are recognised as an expense in the income statement in the financial year in which they are incurred.

FRS 17 (25)

#### *Operating leases*

Leases of property, plant and equipment where 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)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

Contingent rents are recognised as an expense in the income statement in the financial year in which they are incurred.

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 financial year in which termination takes place.

## (2) When a group company is the lessor:

The Group leases out certain property, plant and equipment and investment properties to third parties.

### Finance leases

Leases of assets where substantially all the risks and rewards incidental to legal ownership of the assets are transferred by the Group to the lessees are classified as finance leases.

FRS 17 (4)

The leased asset is derecognised and the present value of the lease receivable (net of initial direct costs for negotiating and arranging the lease) is recognised on the balance sheet and included in "trade and other receivables". The difference between the gross receivable and the present value of the lease receivable is recognised as unearned finance income.

FRS 17 (36)  
FRS 17 (38)

Each lease payment received is applied against the gross investment in the finance lease receivable to reduce both the principal and the unearned finance income. The finance income is recognised in the income statement on a basis that reflects a constant periodic rate of return on the net investment in the finance lease receivable.

FRS 17 (40)  
FRS 17 (39)

Contingent rents are recognised as income in the income statement in the financial year in which they are earned.

### Operating leases

Assets leased out under operating leases are included in investment properties and property, plant and equipment.

FRS 17 (49)

Rental income from operating leases (net of any incentives given to lessees) is recognised in the income statement on a straight-line basis over the lease term.

FRS 17 (50)  
INT FRS 15 (4)

Initial direct costs incurred by the Group in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense in the income statement over the lease term on the same basis as the lease income.

FRS 17 (52)

Contingent rents are recognised as income in the income statement in the financial year in which they are earned.

## 2.19 Research costs

Research costs are recognised as an expense when incurred.

FRS 38 (54)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 2.20 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost of inventories include transfer from the hedging reserve any gains or losses on qualifying cash flow relating to purchases of inventories.

FRS 2 (9)  
FRS 2 (36)(a)  
FRS 2 (10)

FRS 23 (7)  
FRS 2 (6)

## 2.21 Income taxes

Current income tax liabilities (and assets) for current and prior periods are recognised at the amounts expected to be paid to (or recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date.

FRS 12 (46)

Deferred income tax assets/liabilities are recognised for all deductible taxable temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax assets/liabilities arise from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

FRS 12 (15)

Deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

FRS 12 (39)

Deferred income tax asset is 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, 44)

Deferred income tax assets and liabilities are measured at:

- (i) the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date; and
- (ii) the tax consequence that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

FRS 12 (47)

FRS 12 (51)

Current and deferred income tax are recognised as income or expenses in the income statement for the period, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax on temporary differences arising from the revaluation gains and losses on land and buildings, fair value gains and losses on available-for-sale financial assets and cash flow hedges, and the liability component of convertible debts are charged or credited directly to equity in the same period the temporary differences arise. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

FRS 12 (58)

FRS 12 (61)

FRS 12 (66)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 2.22 Provisions

Provisions for asset dismantlement, removal or restoration, warranty, restructuring costs and legal claims are recognised when the Group has a present 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 the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

FRS 37 (14,24)  
FRS 37 (72)  
FRS 37 (63)

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. 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)

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised in the income statement as interest expense.

FRS 37 (45)

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the income statement for the period the changes in estimates arise except for asset dismantlement, removal and restoration costs, which are 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 reached 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 compensation<sup>19</sup>

### (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 on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

FRS 19 (7)

FRS 19 (44)

### (b) 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 on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under options that are

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

# Notes to the Financial Statements

for the financial year ended 31 December 2006

expected to become exercisable on the vesting date. At each balance sheet date, the Group revises its estimates of the number of shares under options that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the income statement, with a corresponding adjustment to the share option reserve over the remaining vesting period.

FRS 102 (19)

When the options are exercised, the proceeds received (net of any directly attributable transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital, when new ordinary shares are issued, or to the “treasury shares” account within equity, when treasury shares purchased are re-issued to the employees.

## (c) 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<sup>20,21,22</sup>

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 (“functional currency”). The financial statements are presented in Singapore Dollar, which is the Company’s functional 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 of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in the income statement, except for currency translation differences on the net investment in foreign operations, borrowings in foreign currencies and other currency instruments qualifying as net investment hedges for foreign operations, which are included in the currency translation reserve within equity in the consolidated financial statements.

FRS 21 (21)

FRS 21 (28)

FRS 21 (32)

FRS 39 (102)

Changes in the fair value of monetary securities denominated in foreign currencies classified as available-for-sale are analysed into currency translation differences on the amortised cost of the securities, and other changes. Currency translation differences on the amortised cost are recognised in the income statement, and other changes are recognised in fair value reserve within equity.

FRS 39 (AG83)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined. Currency translation differences on non-monetary items, whereby the gains or losses are recognised in the income statement, such as equity investments held at fair value through profit or loss, are reported as part of the fair value gains or losses in "other gains/losses - net". Currency translation differences on non-monetary items whereby the gains or losses are recognised directly in equity, such as equity investments classified as available-for-sale financial assets, investment properties and property, plant and equipment are included in the fair value reserve and asset revaluation reserve respectively.

FRS 21 (23)(c)

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 are translated at the closing rates at the date of the balance sheet;
- (ii) Income and expenses are translated at average exchange rates (unless the 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 currency translation reserve within equity.

FRS 1 (76)(b)

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

FRS 21 (47)

## (d) Consolidation adjustments

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

FRS 21 (32)

## 2.25 Segment reporting

A business segment is a distinguishable component of the Group 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 a distinguishable component of the Group 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)



# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 2.26 Cash and cash equivalents

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

FRS 7 (45)

## 2.27 Share capital and treasury shares

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.<sup>17</sup>

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

Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

FRS 32 (35)

When any entity within the Group purchases the Company's ordinary shares (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 and presented as "treasury shares" within equity, until they are cancelled, sold or reissued.

FRS 32 (33)

When treasury shares are cancelled, the cost of treasury shares are deducted against the share capital account, if the shares are purchased out of capital of the Company, or against the retained profits of the Company, if the shares are purchased out of profits of the Company.

CA 76G

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of the treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is taken to the capital reserve of the Company.

FRS 32 (33)

## 2.28 Dividends

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 carried 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. Any impairment loss on initial classification and subsequent measurement is recognised in the income statement. Subsequent increases in fair value less costs to sell up (not exceeding the accumulated impairment loss that has been previously recognised) are recognised in the income statement.

FRS 105 (6,15)

FRS 105 (20)

FRS 105 (22)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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.

Results and cash flows attributable to a discontinued operation (including comparative figures) are presented or disclosed separately from the continuing operations.

FRS 105 (33,34)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 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 *Property, Plant and Equipment* 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.

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 from the Registrar in the Accounting and Corporate Regulatory Authority (ACRA) 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.

Under the Companies (Accounting Standards for Listed Companies) Order 2003, if a Singapore-incorporated listed company on the Singapore Exchange 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. This is provided that the alternative accounting standards are accounting standards approved by SGX-ST and the company has notified the Registrar in ACRA 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").

CA 201 (14C)

5. Early adoption of revised or new FRS or INT FRS  
Where the company early adopts any revised or new FRS and/or INT 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 disclosure should be made:
  - (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.

FRS 8 (28)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Guidance Notes

### Standards, interpretation and amendments to standards effective in 2006

6. The following are the FRS and INT FRS effective for annual periods beginning 1 January 2006:

FRS 19 (Amendment)	Employee Benefits
FRS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates
FRS 32 (Amendment)	Financial Instruments: Disclosure and Presentation
FRS 39 (Amendment)	Financial Instruments: Recognition and Measurement
FRS 101 (Amendment)	First-time Adoption of Financial Reporting Statements
FRS 104 (Amendment)	Insurance Contracts
FRS 106	Exploration for and Evaluation of Mineral Resources
INT FRS 104	Determining whether an Arrangement contains a Lease
INT FRS 105	Rights to Interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

### Basis of consolidation

7. 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 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). A suggested disclosure is 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 PWC Corporate 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 PWC Corporate Limited is as follows: 320 Pier Street, #17-00 Singapore 049900."*

### Non-uniform accounting policies

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

FRS 27 (28)

### Group accounting

9. 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)

10. 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 is accounted for by adjusting the carrying amount of minority interests to reflect the change in the Group's interest in the subsidiary's net assets. The difference between the amount of adjustment to minority interests and the fair value of the consideration paid or received, if any, is brought to retained earnings<sup>7</sup>.*

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Guidance Notes

*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

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

FRS 31 (38)

### Revaluation of property, plant and equipment

12. 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)

### Development properties

13. 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"

14. Goodwill on acquisition prior to annual periods commencing 1 October 2000 were allowed to be adjusted against shareholders' equity.

### 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.

FRS 25 Foreword

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Guidance Notes

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. The amount transferred from the revaluation reserve should be net of any related deferred tax.

FRS 25 (33)

FRS 12 (64)

### 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)

### Cash flow hedges/Inventories

18. If derivatives contracts are entered into for the purpose of hedging highly probable forecasted purchases and sales of inventories and they qualify for hedge accounting, the cost of inventories should include any gains/losses on qualifying cash flow hedges relating to purchases of inventories transferred from equity. If the hedging instruments do not qualify for hedging accounting, the fair value changes of the hedging instruments are included in the income statement in the financial year the changes arise. In such cases, the last sentence in the illustrated accounting note should be removed.

FRS 39 (98)(b)

### Employee compensation expense

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.
22. When the financial statements are presented in a currency different from the Company's functional currency, the following are required to be disclosed:
- (i) the functional currency; and
  - (ii) the reason for using a different presentation currency.

FRS 21 (54)

FRS 21 (53)

### 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 values where there is a reasonable assurance that the grant will be received and the Group will comply with the 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 period relating to assets are included in non-current liabilities as other liabilities and are recognised in 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)

### Criteria for designation as at fair value through profit or loss

24. Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, or when doing so results in more relevant information, because either
- (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
  - (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel [as defined in FRS 24 *Related Party Disclosures* (as revised in 2004)], for example the entity's board of directors and chief executive officer.

FRS 39 (9)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Guidance Notes

### Other matters

25. 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).
26. 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.
27. 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 2006

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

FRS 8 (28)(c)

### *Financial Guarantee Contracts*

Previously, financial guarantees issued by the Company to banks in relation to borrowings by subsidiaries are accounted for as contingent liabilities of the Company and are not recognised in the financial statements until the Company has incurred an obligation to make payment under the guarantee.

FRS 39 (Amendment) *Financial Guarantee Contracts*, effective from 1 January 2006, requires financial guarantees to be accounted for in a manner as set out in Note 2.13.

The revised FRS 39 has been applied retrospectively and does not result in material adjustments to the balance sheet of the Company at 31 December 2005 and 1 January 2006. The effects of adoption on the balance sheet of the Company at 31 December 2006 are as follows:

	<u>Increase/(decrease)</u>
	<b>2006</b>
	<b>\$'000</b>
Investment in subsidiaries	<b>200</b>
Other liabilities	<b>160</b>
Retained profits	<b>40</b>

## Guidance Notes

### Effect on financial statements on adoption of new or revised FRS

#### Restatement of comparative information

1. 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)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 4. Critical accounting estimates, assumptions and judgements

Estimates, assumptions 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. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates [see Note 31(a)].

FRS 36 (10)(b)

If the management's estimated gross margin had been lowered by 10%, the carrying values of goodwill and property, plant and equipment would be reduced by \$500,000 and \$350,000, respectively.

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 and property, plant and equipment would be reduced by \$400,000 and \$250,000, respectively.

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

# Notes to the Financial Statements

for the financial year ended 31 December 2006

- 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. 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 financial assets, available-for-sale would be reduced by \$80,000 or increased by \$85,000, respectively.

## (iv) Construction contracts

The Group uses the percentage-of-completion method in accounting for its contract revenue where it is probable that contract costs are recoverable. 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 costs incurred, the estimated total contract revenue and contract costs, as well as the recoverability of the contracts. Total contract revenue also includes an estimation of the variation works and claims that are recoverable from the customers. In making the judgement, the Group has relied on past experience and the work of specialists.

If the estimated total contract revenue increases/decreases by 10% from management's estimates, the Group's revenue will increase/decrease by \$1,250,000 and \$1,000,000, respectively.

If the estimated total contract costs increase/decrease by 10% from management's estimates, the Group's revenue will decrease/increase by \$800,000 and \$700,000, respectively and contract costs will increase/decrease by \$400,000 and \$300,000, respectively.

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

FRS 1 (113)

### (i) Revenue recognition

The Group recognised revenue amounting to \$950,000 for sales of goods to XYZ Sdn Bhd in Malaysia during 2006. 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 to its customers. 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 2006. The Group will suffer an estimated loss of \$700,000 in its 2007 financial statements if the sale is cancelled, \$665,000 being the reversal of 2006 profits and \$35,000 of costs connected with returning the inventory to the warehouse.

## Notes to the Financial Statements

for the financial year ended 31 December 2006

### *(ii) Held-to-maturity investments*

The Group follows the guidance of FRS 39 in 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, it will be required to reclassify the entire held-to-maturity financial assets as available-for-sale. The investments will be required to be measured at fair value instead of at amortised cost upon reclassification.

If such reclassification is required, the carrying amount of financial assets would increase by \$98,000, with a corresponding increase in the fair value reserve within equity.

### *(iii) Impairment of financial assets, available-for-sale*

The Group follows the guidance of FRS 39 in determining when a financial asset is considered impaired. This determination requires significant judgement. The Group evaluates, among other factors, the duration and extent to which the fair value of a financial asset is less than its cost, the financial health of and the near-term business outlook of the issuer of the instrument, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the assumptions in relation to the duration and the extent to which the fair value is less than its cost do not hold, the Group would suffer an additional \$573,000 loss in its 2007 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 2006

## 5. Revenue

	Group		
	2006	2005	
	\$'000	\$'000	
Sale of goods <sup>1</sup>	172,619	96,854	FRS 18 (35)(b)(i)
Construction revenue	29,808	11,527	FRS 11 (39)(a)
Rendering of services <sup>1</sup>	7,787	3,979	FRS 18 (35)(b)(ii)
Total sales	210,214	112,360	

### Guidance Notes

#### Revenue

##### Revenue from exchange of goods or services

1. Where applicable, 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)

## 6. Expenses by nature <sup>1</sup>/Amortisation, depreciation and impairment charges <sup>2</sup>

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

	Group		
	2006	2005	
	\$'000	\$'000	
Purchases of raw materials, finished goods and consumables	45,073	23,688	
Amortisation of intangible assets [Note 31(d)]	775	515	FRS 16 (73)(e)(vii)
Depreciation of property, plant and equipment (Note 30)	17,675	9,582	FRS 36 (126)(a)
Impairment loss of goodwill [Note 31(a)]	4,650	—	FRS 1 (93)
Total depreciation, amortisation and impairment	23,100	10,097	FRS 1 (93)
Employee compensation (Note 7)	40,090	15,500	
Sub-contractor charges	12,400	7,700	
Advertising expense	10,871	6,952	FRS 17 (35)(c)
Rental on operating leases	10,588	8,697	
Research expense	473	200	FRS 38 (126)
Transportation expense	7,648	5,876	
Reversal of inventory write-down/inventory write-down	(200)	350	FRS 2 (36)
Other expenses	878	672	
Changes in inventories of raw materials, work-in-progress and finished goods	7,164	(2,950)	
Total cost of sales, distribution and marketing costs and administrative expenses	158,085	76,782	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 7. Employee compensation

	Group		
	2006	2005	
	\$'000	\$'000	
Wages and salaries	28,514	11,679	
Employer's contribution to defined contribution plans including Central Provident Fund <sup>3</sup>	9,246	3,717	FRS 19 (46)
Termination benefits <sup>4</sup>	1,600	—	FRS 19 (142)
Other long-term benefits	300	282	
Share options expense (Notes 39 and 40)	690	622	FRS 102 (51)(a)
	40,350	16,300	
Less: Amounts attributable to discontinued operations	(260)	(800)	
Amounts attributable to continuing operations	40,090	15,500	

## 8. Other gains/(losses) – net <sup>6</sup>

	Group		
	2006	2005	
	\$'000	\$'000	
Fair value gains/losses on financial assets at fair value through profits or loss			FRS 32 (94)(f)
– Held for trading	(1,446)	(1,232)	
– Dividend income	330	—	FRS 18 (35)(b)
– Designated on initial recognition	610	—	
Financial assets, available-for-sale			
– Net gain on disposal	825	—	
– Fair value gains transferred from fair value reserve on disposal [Note 40(b)(iii)]	150	—	
– Impairment loss (Note 16)	(575)	—	
Currency exchange loss – net <sup>7</sup>	(810)	(904)	
Effect of hedging using forward contracts	355	407	FRS 32 (94)(k)
Fair value gains on forward contracts not qualifying as hedges	529	60	FRS 32 (94)(k)
Interest income	1,180	620	FRS 18 (35)(b)(iii)
Dividend income	2,230	400	FRS 32 (94)(h)(i)
Rental income from investment properties	188	146	FRS 18 (35)(b)(v)
Gain on disposal of property, plant and equipment <sup>6</sup>	17	8	FRS 25 (49)(b)
Revaluation loss on investment properties (Note 27)	(123)	(10)	
Loss on disposal of a subsidiary <sup>5</sup> (see note below)	(945)	—	
	2,515	(505)	

On 28 June 2006, the Company disposed of its 100% interest in PwC Logistics Pte Ltd (“PwC Logistics”) for a cash consideration of \$983,000. The carrying value of identifiable net assets disposed of (including currency translation difference) amounted to \$1,928,000 at 28 June 2006, 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.

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 rental income from investment properties was contingent rent amounting to \$50,000 (2005: \$62,000), which was computed based on the sales achieved by lessees.

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 9. Finance expense

	2006	Group 2005	
	\$'000	\$'000	
Interest expense:			FRS 32 (94)(k)
– bank borrowings	(4,667)	(5,822)	
– convertible bonds (Note 34)	(3,083)	–	
– dividend on redeemable preference shares (Note 35)	(1,950)	(1,950)	
– finance lease liabilities	(67)	(62)	
– amortisation of discount on non-current provision [Note 37(d)]	(15)	(15)	
Effect of hedging using interest-rate swaps	102	304	FRS 32 (94)(k)
Net interest expense	(9,680)	(7,545)	
Currency exchange gains/(losses) <sup>7</sup> – net	2,578	(1,540)	FRS 21 (52)(a)
Total finance expense	(7,102)	(9,085)	
Less: Amount capitalised in development property	29	25	
Finance expense recognised in the income statement	(7,073)	(9,060)	

### Guidance Notes

#### Disclosures relating to Income Statement

##### Classification of expenses (by function versus by nature)

1. Entities presenting their expenses by function should disclose additional information on the nature of expenses, including depreciation and amortisation expense and staff costs. Additional line items shall be included when such presentation is relevant to an understanding of the entity's financial performance.
2. Companies presenting their expenses by nature need not disclose the items already disclosed on the face of income statement.

FRS 1 (93)

##### Employee compensation

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 Benefits Plans. Accounting for such plans is complicated and disclosures are extensive. Please refer to Appendix I for illustration of disclosures applicable to Defined Benefits Plans.
4. Under FRS 1 *Presentation of Financial Statements*, an entity 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 entity for the period. Termination benefits may warrant disclosure in compliance with this requirement. Alternatively, an entity 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)

##### Other gains/(losses) – net

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 entity 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 (186)  
SGX App7.2 (1)(a)(ii)

FRS 1 (87)



# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Guidance Notes

6. For listed companies, gains arising from disposal of property, plant and equipment, investments and properties are required to be disclosed, regardless of their quantum, in the financial results announcements to SGX-ST.

### Currency exchange gains/(losses) – net

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

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

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 10. Income taxes

### (a) Income tax expense

	2006 \$'000	Group 2005 \$'000	
Tax expense attributable to profit is made up of:			FRS 12 (79)
<u>From continuing operations</u>			
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)
	<b>14,921</b>	<b>8,885</b>	
<u>From discontinued operations</u>			
Current income tax			
– Foreign (Note 11)	67	320	FRS 12 (81)(h)
	<b>14,988</b>	<b>9,205</b>	
<u>From continuing operations</u>			
Under provision in preceding financial years			
– current income tax	–	100	
	<b>14,988</b>	<b>9,305</b>	

The tax expense on profit differs from the amount that would arise using the Singapore standard rate of income tax is as explained below:

	2006 \$'000	Group 2005 \$'000	
Profit before tax from:			
Continuing operations	47,397	25,198	
Discontinued operations (Note 11)	167	800	
	<b>47,564</b>	<b>25,998</b>	
Tax calculated at a tax rate of 20% <sup>1,2</sup> (2004: 20%)	9,513	5,200	
Effects of:			
– Different tax rates in other countries	1,095	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)	
– Other	6	(20)	
Tax charge	<b>14,988</b>	<b>9,205</b>	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (b) Movements in current income tax liabilities<sup>3</sup>

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
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 subsidiary (Note 13)	(80)	–	–	–
End of financial year	2,942	2,846	235	325

Included in the Company's current tax liabilities is an amount of \$32,000 (2005: \$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.<sup>4</sup>

### 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.

FRS 12 (85)

2. An explanation of changes in the applicable tax rate(s) compared to the previous accounting period should be included, where applicable.

FRS 12 (81)(d)

##### Movements in current tax liabilities

3. This disclosure note is voluntary. Recommended as a good practice.

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

4. This disclosure note is voluntary. Recommended as a good practice.

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 11. Discontinued operations <sup>1</sup> and Disposal group classified as held for sale <sup>1</sup>

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

Following the approval of the Group's management and shareholders on 31 May 2006 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 2007.

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

FRS 105 (33)(b)

	2006 \$'000	2005 <sup>1</sup> \$'000	
Revenue	1,200	4,600	
Expenses	(960)	(4,760)	
Profit/(loss) before tax from discontinued operations	240	(160)	
Tax	(96)	(320)	
Profit/(loss) after tax from discontinued operations	144	(480)	FRS 12 (81)(h)(ii)
Pre-tax loss recognised on the measurement to fair value less cost to sell on disposal group	(73)	—	
Tax	29	—	
After tax loss recognised on the measurement to fair value less cost to sell on disposal group	(44)	—	FRS 12 (81)(h)(ii)
Total profit/(loss) from discontinued operations	100	(480)	

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

	2006 \$'000	2005 \$'000	
Operating cash flows	300	190	
Investing cash flows	(103)	(20)	FRS 105 (33)(c)
Financing cash flows	(295)	(66)	FRS 105 (33)(c)
Total cash flows	(98)	104	FRS 105 (33)(c)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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

	<b>2006</b> <b>\$'000</b>	<b>FRS 105 (38)</b>
Property, plant and equipment	1,563	
Intangible assets	100	
Inventory	1,670	
	<u><b>3,333</b></u>	
Liabilities directly associated with disposal group classified as held for sale:		<b>FRS 105 (38)</b>
Trade and other payables	104	
Other current liabilities	20	
Provisions	96	
	<u><b>220</b></u>	

## Guidance Notes

### Discontinued operations

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

**FRS 105 (34)**

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 12. Earnings per share <sup>1</sup>

### (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 outstanding <sup>2</sup> during the financial year.

FRS 33 (9)

	<u>Continuing operations</u>		<u>Discontinued operations</u>		<u>Total</u>		
	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005	
Net profit/(loss) attributable to equity holders of the Company (\$'000)	<b>29,928</b>	16,317	<b>100</b>	(480)	<b>30,028</b>	15,837	FRS 33 (70)(a)
Weighted average number of ordinary shares in issue for basic earnings per share <sup>2</sup> ('000)	<b>23,454</b>	20,500	<b>23,454</b>	20,500	<b>23,454</b>	20,500	FRS 33 (70)(b)
Basic earnings/(loss) per share (\$ per share)	<b>1.27</b>	0.79	<b>0.01</b>	(0.02)	<b>1.28</b>	0.77	

### (b) Diluted earnings per share

For the purpose of calculating diluted earnings per share, profit attributable to equity holders 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, the weighted average number of shares in issue is adjusted as if all share options that are dilutive were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration, with no adjustment to earnings (numerator).

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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

	<u>Continuing operations</u>		<u>Discontinued operations</u>		<u>Total</u>		
	<b>2006</b>	2005	<b>2006</b>	2005	<b>2006</b>	2005	
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	
Net profit/(loss) attributable to equity holders of the Company (\$'000)	<b>29,928</b>	16,317	<b>100</b>	(480)	<b>30,028</b>	15,837	FRS 33 (70)(a)
Interest expense on convertible bonds (net of tax)	<b>2,466</b>	—	—	—	<b>2,466</b>	—	
Net profit/(loss) used to determine diluted earnings per share	<b>32,394</b>	16,317	<b>100</b>	(480)	<b>32,494</b>	15,837	FRS 33 (70)(a)
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	<b>23,454</b>	20,500	<b>23,454</b>	20,500	<b>23,454</b>	20,500	FRS 33 (70)(b)
Adjustments for							
– assumed conversion of convertible bonds	<b>3,030</b>	—	<b>3,030</b>	—	<b>3,030</b>	—	
– share options	<b>1,213</b>	—	<b>1,213</b>	—	<b>1,213</b>	—	
	<b>27,697</b>	20,500	<b>27,697</b>	20,500	<b>27,697</b>	20,500	FRS 33 (70)(b)
Diluted earnings/(loss) per share (\$ per share)	<b>1.17</b>	0.79	*	(0.02)	<b>1.17</b>	0.77	

\* Less than \$0.01

The changes in accounting policies did not materially affect the basic and diluted earnings per share for the current and prior period.



# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 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 shall 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 shall be based on the new number of shares. The fact that per share calculations reflect such changes in the number of shares shall be disclosed. In addition, basic and diluted earnings per share of all periods presented shall be adjusted for the effects of errors and adjustments resulting from changes in accounting policies accounted for retrospectively.
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.
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 (64)

FRS 8 (28)(f)(ii)

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

FRS 33 (73)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 13. Cash and cash equivalents

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	12,698	30,798	343	243
Short-term bank deposits	9,530	5,414	1,659	2,734
	<b>22,228</b>	<b>36,212</b>	<b>2,002</b>	<b>2,977</b>

At the balance sheet date, the carrying amounts of cash and cash equivalents approximated their fair values.

FRS 32 (86)

Cash and cash equivalents were denominated in the following currencies:

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

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Singapore Dollar	3,179	5,888	570	270
United States Dollar	15,816	27,033	1,432	2,707
Other	3,233	3,291	—	—
	<b>22,228</b>	<b>36,212</b>	<b>2,002</b>	<b>2,977</b>

Short-term bank deposits at the balance sheet date had an average maturity of three months (2005: 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)

	Group		Company	
	2006	2005	2006	2005
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 2006

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

FRS 7 (45)

	2006	Group 2005
	\$'000	\$'000
Cash and bank balances (as above)	22,228	36,212
Less: Bank overdrafts <sup>5</sup> (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 2006, the Company disposed of its 100% interest in PwC Logistics Pte Ltd for a cash consideration of \$983,000.

On 1 October 2006, 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).

FRS 103 (66)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

The aggregate effects of acquisition and disposal of subsidiaries on the cashflows of the Group were as follows:

FRS 103 (67)(f)

	Group			
	Acquisition		Disposal	
	At fair values \$'000	Carrying amounts in acquiree's books \$'000	Carrying amounts \$'000	
<i><u>Identifiable assets and liabilities</u></i>				
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 licences [Note 31(b)]	4,000	—	—	FRS 7 (40)(d)
Investment in associated company (Note 24)	389	329	—	FRS 7 (40)(d)
Investments, available-for-sale (Note 16)	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	
Identifiable net assets	15,141	6,409	(3,428)	
Less: Minority interests	(4,542)	(575)	300	
Identifiable net assets acquired/(disposed)	10,599	5,834	(3,128)	
Goodwill [Note 31(a)]	3,651			
Cash consideration paid	14,250			FRS 7 (40)(a,b)
Less: Cash and cash equivalents in subsidiary acquired	(300)			FRS 7 (40)(c)
Net cash outflow on acquisition	13,950			

The aggregate cash inflows arising from the disposal of PwC Logistics Pte Ltd were as follows:

	Group \$'000	
Identifiable net assets disposed (as above)	3,128	
Transfer from shareholders' equity - currency translation differences [Note 40(b)(v)]	(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 2006

## Guidance Notes

### Cash and cash equivalents

#### Definition of cash equivalents

FRS 7 (7,8,9)

- 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 equivalent. 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.

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

FRS 7 (45)

#### Cash not available for use

- 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.
- 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 shall be classified as non-current.

FRS 7 (49)

FRS 7 (48)

FRS 1 (57)

#### Bank overdrafts

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

FRS 7 (8)

## 14. Financial assets, at fair value through profit or loss

	Group	
	2006	2005
	\$'000	\$'000
<i>Held for trading</i>		
Listed securities:		
– Equity securities - Singapore	5,850	4,023
– Equity securities - US	3,997	4,303
	<u>9,847</u>	<u>8,326</u>
<i>At fair value on initial recognition</i>		
Listed securities:		
– Equity securities - US	938	–
	<u>10,785</u>	<u>8,326</u>

FRS 32 (94)(e)

FRS 39 (AG71,72,73)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 15. Derivative financial instruments

	← Group →			← Company →		
	Contract/ Notional Amount \$'000	Fair value		Contract/ Notional Amount \$'000	Fair value	
		Assets \$'000	Liabilities \$'000		Assets \$'000	Liabilities \$'000
<u>2006</u>						
<i>Cash-flow hedges</i>						
- Interest-rate swaps	4,324	645	(535)	2,170	266	(47)
- Currency forwards	2,120	150	—	—	—	—
<i>Fair-value hedges</i>						
- Currency forwards	3,200	259	—	—	—	—
<i>Non-hedging instruments</i>						
- Currency forwards	2,108	410	(40)	—	—	—
Total		1,464	(575)		266	(47)
<b>Less: Current portion</b>		<b>1,069</b>	<b>(440)</b>		<b>232</b>	<b>(35)</b>
<b>Non-current portion</b>		<b>395</b>	<b>(135)</b>		<b>34</b>	<b>(12)</b>
<u>2005</u>						
<i>Cash-flow hedges</i>						
- Interest-rate swaps	3,839	345	(255)	1,200	84	(47)
- Currency forwards	1,080	60	—	—	—	—
<i>Fair-value hedges</i>						
- Currency forwards	804	49	—	—	—	—
<i>Non-hedging instruments</i>						
- Currency forwards	1,023	110	(29)	—	—	—
Total		564	(284)		84	(47)
<b>Less: Current portion</b>		<b>452</b>	<b>(240)</b>		<b>78</b>	<b>(45)</b>
<b>Non-current portion</b>		<b>112</b>	<b>(44)</b>		<b>6</b>	<b>(2)</b>

At 31 December 2006, the fixed interest rates on interest rate swaps ranged from 6.9% to 7.4% (2005: 6.7% to 7.2%) and the main floating rate is 3-month USD LIBOR at 5.4% per annum.

FRS 32 (67)(b)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 16. Financial assets, available-for-sale

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Beginning of financial year	13,062	12,158	1,345	1,124
Currency translation differences	222	—	—	—
Acquisition of subsidiary (Note 13)	473	—	—	—
Additions	3,956	691	—	—
Fair value gains recognised in equity [Note 40(b)(iii)]	710	88	155	94
Impairment losses (Note 8)	(575)	—	—	—
Disposals	(600)	—	—	—
End of financial year	17,248	12,937	1,500	1,218
Less: Current portion	(1,950)	(646)	—	—
Non-current portion	15,298	12,291	1,500	1,218

FRS 1 (57)

The fair values of unlisted securities were based on cashflows discounted at rates based on the market interest rates and risk premium specific to the unlisted securities (2006: 4.2%, 2005: 4.0%).

At the balance sheet date, available-for-sale financial assets included the following:

FRS 32 (92)(b)

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Listed securities:				
– Equity securities - Singapore	12,885	10,587	1,500	1,218
– Equity securities - US	3,728	2,086	—	—
– S\$ Corporate Fixed rate notes of 4% due 27 August 2010	288	—	—	—
	16,901	12,673	1,500	1,218
Unlisted securities:				
– S\$ Corporate Variable rate notes due 30 November 2008	347	264	—	—
	17,248	12,937	1,500	1,218

FRS 32 (67)

FRS 39 (AG74-79)

FRS 32 (67)(b)

The effective interest rates for the interest-bearing financial assets were as follows:

	Group	
	2006	2005
	%	%
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 2006

## 17. Trade and other receivables - current

FRS 1 (75)(b)

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
Finance lease receivables (Note 22)	156	218	—	—	FRS 17 (47)(a)
Trade receivables:					FRS 1 (74) FRS 24 (17,22)
– Associated companies	108	97	—	—	
– Non-related parties	16,920	14,499	7,612	2,181	
	17,028	14,596	7,612	2,181	
Less: Allowance for impairment of receivables – non-related parties	(109)	(70)	(100)	(100)	
Trade receivables – net	16,919	14,526	7,512	2,081	
Construction contracts:					
– Due from customers (Note 19)	1,384	1,188	—	—	FRS 11 (42)(a)
– Retentions (Note 19)	60	40	—	—	FRS 11 (40)(c)
	1,444	1,228	—	—	
Loan to an associated company	2,668	1,276	—	—	
Less: Non-current portion (Note 21)	(2,322)	(1,240)	—	—	
	346	36	—	—	FRS 1 (74)
Staff loans (Note 23)	60	25	30	20	
Accrued interest receivable on interest rate swap contracts	10	20	12	10	FRS 1 (74)
Other receivables	30	20	8	5	
	18,965	16,073	7,562	2,116	

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 there is no anticipated additional credit risk beyond the amount of allowance for impairment made in the Group's and Company's trade receivables.

FRS 32 (76)(a,b)

At the balance sheet date, the carrying amounts of current trade and other receivables approximated their fair values. 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 (2005: \$340,000) were factored to a bank with recourse to the Group at the balance sheet date. The corresponding cash received was recorded as bank borrowings.

The loan to an associated company, PwC A Property (Hong Kong) Limited, was unsecured and repayable in full on 1 January 2008. Interest was fixed at 2.2% per annum, which was the effective interest rate.

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

Impairment loss on trade receivables amounted to \$39,000 (2005: \$50,000) was recognised as an expense and included in "Administrative expense".

FRS 32 (94)(i)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 18. Inventories <sup>1</sup>

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

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'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)
	<b>24,258</b>	<b>17,094</b>	<b>2,200</b>	<b>335</b>	

The cost of inventories recognised as expense and included in “cost of sales” amounted to \$52,237,000 (2005: \$20,738,000).

FRS 2 (36)(d)

Inventories of \$1,200,000 (2005: \$1,000,000) of the Group and \$600,000 (2005: \$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 reversed <sup>2</sup> \$200,000, being part of an inventory write-down made in 2005, as the inventories were sold above the carrying amounts in 2006. The reversal was 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 2006

## 19. Construction contract work-in-progress

	Group		
	2006	2005	
	\$'000	\$'000	
Beginning of financial year	147	347	
Contract costs incurred during financial year	23,847	8,991	
Contract expenses recognised in the income statement during financial year	(23,732)	(9,191)	
End of financial year <sup>1</sup>	262	147	
Aggregate contract costs recognised and recognised profits (less recognised losses) to date	52,067	23,325	FRS 11 (40)(a)
Less: Progress billings	(50,763)	(22,197)	
	1,304	1,128	
Analysed as:			
Due from customers on construction contracts <sup>2</sup> (Note 17)	1,384	1,188	FRS 11 (42)(a)
Due to customers on construction contracts <sup>2</sup> (Note 32)	(80)	(60)	FRS 11 (42)(b)
	1,304	1,128	
Advances received on construction contracts (Note 32)	541	262	FRS 11 (40)(b)
Retentions on construction contracts (Note 17)	60	40	FRS 11 (40)(c)

### Guidance Notes

#### Construction contract work-in-progress

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

- 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)

FRS 11 (42)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 20. Other current assets

FRS 1 (75)(b)

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Deposits for purchase of plant, equipment and motor vehicles	345	221	—	—
Prepayments	200	105	50	50
	<b>545</b>	<b>326</b>	<b>50</b>	<b>50</b>

The carrying amounts of deposits approximated their fair values.

FRS 32 (86)

## 21. Trade and other receivables - non-current

FRS 1 (75)(b)

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Finance lease receivables (Note 22)	600	600	—	—
Other receivables:				
– Loan to an associated company (Note 17)	2,322	1,240	—	—
– Loans to subsidiaries	—	—	2,986	3,100
– Staff loans (Note 23)	200	150	150	100
	<b>3,122</b>	<b>1,990</b>	<b>3,136</b>	<b>3,200</b>

The current receivables relating to finance lease receivables are shown in Note 17. Non-current receivables are due within two to five years from the balance sheet date.

FRS 32 (67)(a)

The loans to subsidiaries are unsecured, interest-bearing at the three-month deposit rate plus 1.5% and will be repayable on 31 December 2010.

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

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

FRS 32 (67)(a)

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Finance lease receivables	620	610	—	—
Loan to an associated company	2,400	1,300	—	—
Loans to subsidiaries	—	—	2,986	3,100
Staff loans	205	152	155	106

The fair values were based on cash flows discounted at the market borrowing rate of 7.5% (2005: 7.2%) per annum.

# Notes to the Financial Statements

for the financial year ended 31 December 2006

Current and non-current trade and other receivables were denominated in the following currencies at the balance sheet date:

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

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Singapore Dollar	7,577	11,390	10,698	5,316
United States Dollar	10,371	4,780	—	—
Euro	3,264	1,381	—	—
Other	875	512	—	—
	<b>22,087</b>	<b>18,063</b>	<b>10,698</b>	<b>5,316</b>

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

FRS 32 (67)(b)

	Group		Company	
	2006	2005	2006	2005
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 current and non-current trade and other receivables to interest rate risks is disclosed in Note 45(b).

## 22. Finance lease receivables

	Group	
	2006	2005
	\$'000	\$'000
Gross receivables due:		
– Not later than one year	236	316
– Between two and five years	700	600
– Later than five years	146	147
	<b>1,082</b>	<b>1,063</b>
Less: Unearned finance income	(326)	(245)
Net investment in finance leases	<b>756</b>	<b>818</b>

FRS 17 (47)(a)

FRS 17 (47)(b)

The net investment in finance leases are analysed as follows:

FRS 17 (47)(a)  
FRS 32 (67)(a)

	Group	
	2006	2005
	\$'000	\$'000
Not later than one year (Note 17)	156	218
Later than one year (Note 21):		
– Between two and five years	600	600
	<b>756</b>	<b>818</b>

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 23. Staff loans

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
Not later than one year (Note 17)	60	25	30	20	FRS 32 (67)(a)
Between two and five years (Note 21)	200	150	150	100	FRS 32 (74)(a)
	<b>260</b>	<b>175</b>	<b>180</b>	<b>120</b>	

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

FRS 24 (17,22)

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
Not later than one year	20	20	20	20	FRS 32 (67)(a)
Between two and five years	15	35	15	35	FRS 32 (74)(a)
	<b>35</b>	<b>55</b>	<b>35</b>	<b>55</b>	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 24. Investments in associated companies

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Equity investment at cost			<b>1,000</b>	1,000
Beginning of financial year	<b>8,569</b>	8,133		
Currency translation differences	<b>(606)</b>	291		
Acquisition of subsidiary (Note 13)	<b>389</b>	–		
Share of (losses)/profits <sup>1</sup>	<b>(174)</b>	145		
Share of movements in fair value reserve	<b>30</b>	–		
End of financial year	<b>8,208</b>	8,569		
The summarised financial information of associated companies <sup>2</sup> are as follows:				
– Assets	<b>59,774</b>	36,918		
– Liabilities	<b>46,401</b>	23,674		
– Revenues	<b>65,865</b>	45,013		
– Net (loss)/profit	<b>(500)</b>	800		
Share of associated companies contingent liabilities incurred jointly with other investors <sup>6</sup>	<b>106</b>	240		
Contingent liabilities in which the Group is severally liable <sup>6</sup>	<b>60</b>	100		

FRS 1 (IG4)

FRS 28 (38)

FRS 28 (37)(b)

FRS 28 (40)(a)

FRS 28 (40)(b)

Goodwill amounting to \$1,020,000 (2005: \$1,020,000) was included in the carrying amount of investments in associated companies.

FRS 28 (23)

The Group did not recognise losses amounting to \$15,000 (2005: \$5,000) for PwC Insignificant Associate Ltd because the Group's share of losses exceeded its interest in PwC Insignificant Associate Ltd. The accumulated losses not recognised were \$27,000 (2005: \$12,000).<sup>6</sup>

FRS 28 (37)(g)

Details of significant associated companies are provided in Note 52.



# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Guidance Notes

### Investments in associated companies

1. Share of results is after tax and minority interest of associated companies. FRS 1 (IG4)
2. An alternative method of presentation is to disclose the Group's share instead of the gross amounts of assets and liabilities of associates.
3. 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 shall 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 shall be no more than three months. The length of the reporting periods and any difference in the reporting dates shall be the same from period to period. FRS 28 (25)
4. 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 associated company's accounting policies to those of the investor when the associated company's financial statements are used by the investor in applying the equity method. FRS 28 (27)
5. 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)
6. Where applicable, the investor should disclose:
  - (a) its share of the contingent liabilities incurred jointly with other investors; and FRS 28 (40)(a)
  - (b) those contingent liabilities that arise because the investor is severally liable for the liabilities. FRS 28 (40)(b)
7. 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)

FRS 28 (30)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 25. Investment in a joint venture

The Company has a 60% equity interest at a cost of \$880,000 (2005: \$880,000) 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<sup>1</sup>.

FRS 31 (56)

The following amounts represented the Group's 60% share of the assets and liabilities and income and expenses of the joint venture that were included in the consolidated balance sheet and income statement using the line-by-line format of proportionate consolidation: <sup>2</sup>

FRS 31 (56)

	Group	
	2006	2005
	\$'000	\$'000
Assets:		
Current assets	803	717
Non-current assets	2,730	2,124
	<b>3,533</b>	<b>2,841</b>
Liabilities:		
Current liabilities	(388)	(406)
Non-current liabilities	(1,081)	(1,073)
	<b>(1,469)</b>	<b>(1,479)</b>
Net assets	<b>2,064</b>	<b>1,362</b>
Sales	1,100	778
Expenses	(354)	(509)
Profit before tax	746	269
Income tax	(224)	(160)
Profit after tax	<b>522</b>	<b>109</b>
Operating cash inflows <sup>3</sup>	640	560
Investing cash (outflows)/inflows <sup>3</sup>	(40)	70
Financing cash outflows <sup>3</sup>	(20)	(110)
Total cash inflows <sup>3</sup>	<b>580</b>	<b>520</b>
Capital commitments in relation to interest in joint venture <sup>4</sup>	—	250
Proportionate interest in joint venture's commitments <sup>4</sup>	<b>90</b>	<b>92</b>

FRS 7 (50)(b)

FRS 7 (50)(b)

FRS 7 (50)(b)

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 2006

## Guidance Notes

### Investment in a joint venture

#### Legal subsidiary not required to be consolidated

- 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 5 (1)  
FRS 27 (4)

However, there may be a situation where control is not obtained despite the investor 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).

#### Disclosures for significant joint ventures

- A venturer shall 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.
- 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 encouraged as it may be relevant to users in understanding the financial position and liquidity of a company.
- 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:
  - 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
  - its share of the capital commitments of the joint ventures themselves.
- 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:
  - 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;
  - its share of the contingent liabilities that the joint ventures themselves for which it is contingently liable; and
  - 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 2006

## 26. Investments in subsidiaries

	Company	
	2006	2005
	\$'000	\$'000
Equity investments at cost <sup>5</sup>		
Beginning of financial year	96,460	96,460
Effect on adoption of FRS 39 (Note 3)	200	—
Acquisition during financial year	14,250	—
Disposal during financial year	(500)	—
End of financial year	110,410	96,460

Details of significant subsidiaries are included in Note 52.

FRS 103 (66)(a)  
FRS 103 (67)(a,b,c)

### *Acquisition of a subsidiary*

On 1 October 2006, the Company acquired 70% of the issued share capital of XYZ Electronics Pte Ltd [now known as 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. At the date of these financial statements, the directors are of the view that no additional consideration is payable.

FRS 103 (70)(a,b)

The acquired subsidiary contributed revenue of \$4,500,000 and net profit of \$675,000 to the Group for the period from 1 October 2006 to 31 December 2006. 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 2006, Group revenue would have been \$230,214,000 and net profit would have been \$35,276,000.

FRS 103 (67)(f)

Fair value of identifiable net 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.

FRS 103 (67)(h)

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

Information about an acquisition that took place on 1 March 2007 is set out in Note 49.

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 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 2006

## 27. Investment properties

	Group	
	2006	2005
	\$'000	\$'000
Beginning of financial year	2,635	2,585
Revaluation surplus taken to equity [Note 40(b)(vii)]	253	60
Revaluation loss charged to the income statement (Note 8)	(123)	(10)
End of financial year	2,765	2,635

FRS 25 (49)(g)

FRS 25 (49)(b)(iii)

Investment properties were valued annually at balance sheet date by independent professional valuers. Valuations were made on the basis of open market value. It is the intention of the Directors to hold the investment properties for the long term.<sup>1</sup>

FRS 25 (49)(f)

The Group's revaluation loss was included in "other gains – net" in the income statement.

Investment properties are leased to non-related 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)].<sup>2</sup>

FRS 25 (49)(e)

### Guidance Notes

#### Investment properties

##### Disclosure of development properties and investment properties for listed companies

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

##### Restrictions

2. 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

3. 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 2006

## 28. Development property

	Group	
	2006	2005
	\$'000	\$'000
Land and other related costs	2,000	2,000
Development costs	400	40
	<b>2,400</b>	<b>2,040</b>

FRS 16 (74)(b)

Borrowing costs <sup>2,3,4</sup> of \$29,000 (2005: \$25,000), arising on financing specifically entered into for the development of property for future rental, were capitalised during the financial year, and 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 2006

## 29. Financial assets, held-to-maturity

	Group		
	2006	2005	
	\$'000	\$'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 and maturity date of 28 June 2010	472	—	FRS 32 (67)
	<u>2,122</u>	<u>1,593</u>	

The effective interest rates for the bonds as at the balance sheet date were as follows:

FRS 32 (67)(b)

	Group		
	2006	2005	
	%	%	
Bonds with fixed interest of 5.5% and maturity date of 31 May 2015	5.5	5.5	
Bonds with variable interest and maturity date of 28 June 2010	6.5	—	

The fair values of the bonds at the balance sheet date were as follows:

FRS 32 (86)

	Group		
	2006	2005	
	\$'000	\$'000	
Bonds with fixed interest of 5.5% and maturity date of 31 May 2015	1,720	1,612	
Bonds with variable interest and maturity date of 28 June 2010	500	—	

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

FRS 32 (86)

The financial assets, held-to-maturity were denominated in Singapore Dollar 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 2006

## 30. Property, plant and equipment

	Freehold land and buildings \$'000	Leasehold land and buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000	
<b>Group</b>						FRS 1 (75)(a)
<b>2006</b>						
<i>Cost or valuation</i>						FRS 16 (73)(d)
Beginning of financial year						
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 <sup>1</sup>	—	(2,120)	(4,887)	—	(7,007)	
End of financial year	11,094	82,784	101,284	3,743	198,905	FRS 16 (73)(d)
<i>Representing:</i>						
Cost	—	—	101,284	3,743	105,027	FRS 16 (73)(a)
Valuation	11,094	82,784	—	—	93,878	FRS 16 (73)(a) SGX 1207 (10)
	11,094	82,784	101,284	3,743	198,905	FRS 16 (73)(d)
<i>Accumulated depreciation</i>						
Beginning of financial year	—	—	26,177	1,250	27,427	FRS 16 (73)(d)
Currency translation differences	—	—	808	87	895	FRS 16 (73)(e)(viii)
Depreciation charge						FRS 16 (73)(e)(vii)
— Continuing operations	575	2,970	13,436	694	17,675	
— Discontinued operations	—	—	79	—	79	
Reclassified to disposal group	—	—	(279)	—	(279)	FRS 16 (73)(e)(ii)
Disposals <sup>1</sup>	—	(120)	(550)	—	(670)	
End of financial year	575	2,850	39,671	2,031	45,127	FRS 16 (73)(d)
<b>Net book value</b>						
<b>End of financial year</b>	<b>10,519</b>	<b>79,934</b>	<b>61,613</b>	<b>1,712</b>	<b>153,778</b>	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

	Freehold land and buildings \$'000	Leasehold land and buildings \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000	
<b>Group</b>						<b>FRS 1 (75)(a)</b>
<b>2005</b>						
<i>Cost or valuation</i>						<b>FRS 16 (73)(d)</b>
Beginning of financial year						
Cost	—	—	87,450	2,362	89,812	<b>FRS 16 (73)(a)</b>
Valuation	10,678	26,312	—	—	36,990	<b>FRS 16 (73)(a)</b>
	10,678	26,312	87,450	2,362	126,802	<b>FRS 16 (73)(d)</b>
Currency translation differences	(122)	(272)	(1,073)	(53)	(1,520)	<b>FRS 16 (73)(e)(viii)</b>
Additions	—	1,588	4,063	391	6,042	<b>FRS 16 (73)(e)(i)</b>
Disposals <sup>1</sup>	—	—	(5,737)	—	(5,737)	<b>FRS 16 (73)(e)(ii)</b>
Revaluation surplus <sup>2</sup>						<b>FRS 16 (73)(e)(iv)</b>
[Note 40(b)(vii)]	235	898	—	—	1,133	
Revaluation adjustments <sup>2</sup>	(111)	(512)	—	—	(623)	<b>FRS 16 (73)(d)</b>
End of financial year	10,680	28,014	84,703	2,700	126,097	
Representing:						
Cost	—	—	84,703	2,700	87,403	<b>FRS 16 (73)(a)</b>
Valuation	10,680	28,014	—	—	38,694	<b>FRS 16 (73)(a)</b> <b>SGX 1207 (10)</b>
	10,680	28,014	84,703	2,700	126,097	<b>FRS 16 (73)(d)</b>
<i>Accumulated depreciation</i>						
Beginning of financial year	48	69	20,822	755	21,694	<b>FRS 16 (73)(d)</b>
Currency translation differences	(12)	(18)	(489)	(37)	(556)	<b>FRS 16 (73)(e)(viii)</b>
Depreciation charge						<b>FRS 16 (73)(e)(vii)</b>
– Continuing operations	75	461	8,514	532	9,582	
– Discontinued operations	—	—	80	—	80	
Disposals <sup>1</sup>	—	—	(2,750)	—	(2,750)	<b>FRS 16 (73)(e)(ii)</b>
Revaluation adjustments <sup>2</sup>	(111)	(512)	—	—	(623)	<b>FRS 16 (73)(e)(iv)</b>
End of financial year	—	—	26,177	1,250	27,427	<b>FRS 16 (73)(d)</b>
<b>Net book value</b>						
<b>End of financial year</b>	<b>10,680</b>	<b>28,014</b>	<b>58,526</b>	<b>1,450</b>	<b>98,670</b>	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000	
<b>Company</b>				
<b>2006</b>				
<i>Cost</i>				
Beginning of financial year	432	50	482	FRS 16 (73)(a)
Additions	328	180	508	FRS 16 (73)(e)(i)
Disposals	(55)	—	(55)	FRS 16 (73)(e)(ii)
End of financial year	705	230	935	FRS 16 (73)(d)
<i>Accumulated depreciation</i>				
Beginning of financial year	62	20	82	FRS 16 (73)(d)
Disposals	(20)	—	(20)	FRS 16 (73)(e)(i)
Depreciation charge	14	4	18	FRS 16 (73)(e)(vii)
End of financial year	56	24	80	FRS 16 (73)(d)
<b>Net book value</b>				
<b>End of financial year</b>	<b>649</b>	<b>206</b>	<b>855</b>	
<b>2005</b>				
<i>Cost</i>				
Beginning of financial year	432	—	432	FRS 16 (73)(a)
Additions	—	50	50	FRS 16 (73)(e)(i)
End of financial year	432	50	482	FRS 16 (73)(d)
<i>Accumulated depreciation</i>				
Beginning of financial year	27	—	27	FRS 16 (73)(d)
Depreciation charge	35	20	55	FRS 16 (73)(e)(vii)
End of financial year	62	20	82	FRS 16 (73)(d)
<b>Net book value</b>				
<b>End of financial year</b>	<b>370</b>	<b>30</b>	<b>400</b>	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

- (a) Included in additions in the consolidated financial statements was an amount of \$600,000 (2005: Nil) of motor vehicles that were acquired under finance leases.<sup>6</sup>

FRS 7 (43)

The carrying amount of motor vehicles held under finance leases at 31 December 2006 amounted to \$925,000 (2005: Nil).<sup>7</sup>

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 were as follows:<sup>8</sup>

## Group

	2006		2005	
	<u>Land</u>	<u>Building</u>	<u>Land</u>	<u>Building</u>
	\$'000	\$'000	\$'000	\$'000
Freehold properties	8,509	2,585	9,400	1,280
Leasehold properties	<u>25,007</u>	<u>57,777</u>	<u>8,061</u>	<u>19,953</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 valuer<sup>3</sup> at 31 December 2005.<sup>4</sup>

FRS 16 (77)(a-c)  
SGX 1207 (10)

- (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)

	Group	
	2006	2005
	\$'000	\$'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 (2005: \$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 2006

## Guidance Notes

### Property, plant and equipment

#### Disposals

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

#### Revaluations

2. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is either:
  - (a) 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
  - (b) 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.
3. 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 (35)
4. 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 (77)(b)
5. 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

5. 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

6. Acquisitions and disposals of leased assets that do not involve the use of cash or cash equivalents should be excluded from cash flow statement. FRS 7 (43)
7. Net carrying amount at the balance sheet date should be disclosed for each class of assets acquired by finance lease. FRS 17 (31)(a)

### Land and buildings

8. 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

9. The following disclosures are encouraged: FRS 16 (79)
  - (a) carrying amount of temporarily idle property, plant and equipment;
  - (b) gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
  - (c) carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with FRS 105; and
  - (d) fair value of property, plant and equipment when this is materially different from the carrying amount.

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 31. Intangible assets

<u>Composition:</u>	<u>Group</u>		<u>Company</u>	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'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 licences and development costs [Note (c)]	814	600	200	100
	<b>24,322</b>	<b>19,600</b>	<b>1,200</b>	<b>1,100</b>

(a) Goodwill arising on consolidation

	<u>Group</u>		FRS 38 (118)(e)
	2006 \$'000	2005 \$'000	
<b>Cost</b>			
Beginning of financial year	12,000	12,150	FRS 103 (75)(a)
Acquisition of subsidiary (Note 13)	3,651	—	FRS 38 (113)(e)(iii)
Currency translation differences	(141)	(150)	FRS 103 (75)(f)
End of financial year	<b>15,510</b>	<b>12,000</b>	
<b>Accumulated impairment</b>			
Beginning of financial year	—	—	FRS 103 (75)(a)
Impairment charge (Note 6)	4,650	—	FRS 38 (118)(e)(v)
End of financial year	<b>4,650</b>	—	FRS 103 (75)(e) FRS 103 (75)(h)
<b>Net book value</b>	<b>10,860</b>	<b>12,000</b>	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Impairment tests for goodwill

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

A segment-level summary of the goodwill allocation is analysed as follows:

FRS 36 (134)(a)

	2006			2005		
	Component parts	Furniture	Total	Component parts	Furniture	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Singapore	5,768	120	5,888	5,970	120	6,090
People's Republic of China	325	30	355	125	4,680	4,805
Europe	740	80	820	625	80	705
Other	3,687	110	3,797	300	100	400
	<u>10,520</u>	<u>340</u>	<u>10,860</u>	<u>7,020</u>	<u>4,980</u>	<u>12,000</u>

The recoverable amount of a CGU was determined based on value-in-use calculations. Cash flow projections used in these calculations were based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The growth rate did 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 <sup>1</sup>	60.0%	59.0%	60.0%	56.0%	58.0%	56.0%	58.0%	55.0%
Growth rate <sup>2</sup>	1.8%	1.8%	1.8%	1.9%	1.1%	1.3%	1.1%	1.4%
Discount rate <sup>3</sup>	6.3%	10.0%	10.7%	12.8%	11.5%	11.0%	11.8%	13.5%

<sup>1</sup> Budgeted gross margin

<sup>2</sup> Weighted average growth rate used to extrapolate cash flows beyond the budget period

<sup>3</sup> Pre-tax discount rate applied to the pre-tax cash flow projections



# Notes to the Financial Statements

for the financial year ended 31 December 2006

These assumptions were 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 were consistent with the forecasts included in industry reports. The discount rates used were pre-tax and reflected specific risks relating to the relevant segments.

FRS 36 (134)(d)(ii)

FRS 36 (55)

Impairment charge of \$4,650,000 (2005: Nil) was included in administrative expenses in the income statement<sup>3</sup>. The impairment charge arose from the Furniture cash-generating unit (CGUs) in the People's Republic of China 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 was required.

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

## (b) Trademarks and licences

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Beginning of financial year	7,000	6,971	1,000	400
Currency translation differences	(19)	(306)	—	—
Acquisition of subsidiary (Note 13)	4,000	—	—	—
Additions	2,447	700	100	660
Amortisation				
– Continuing operations	(655)	(315)	(100)	(60)
– Discontinued operations	(25)	(50)	—	—
Reclassified to disposal group (Note 11)	(100)	—	—	—
End of financial year	12,648	7,000	1,000	1,000
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

FRS 38 (118)(e)

FRS 38 (118)(e)(vii)

FRS 38 (118)(e)(i)

FRS 38 (118)(e)(i)

FRS 38 (118)(e)(vi)

FRS 38 (118)(e)(ii)

FRS 38 (118)(c)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (c) Computer software licences and development costs <sup>1</sup>

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
Beginning of financial year	600	845	100	120	
Currency translation differences	(32)	(45)	—	—	FRS 38 (118)(e)(vii)
Additions	366	—	120	—	FRS 38 (118)(e)(i)
Amortisation	(120)	(200)	(20)	(20)	FRS 38 (118)(e)(vi)
End of financial year	814	600	200	100	
Cost	1,634	1,300	240	120	FRS 38 (118)(c)
Accumulated amortisation	(820)	(700)	(40)	(20)	
Net book value	814	600	200	100	

## (d) Amortisation expense included in the income statement is analysed as follows: <sup>3</sup>

	Group		
	2006	2005	
	\$'000	\$'000	
Cost of sales	655	315	
Administrative expenses	120	200	
Total (Note 6)	775	515	

### Guidance Notes

#### Intangible assets

##### Computer software licences and development costs

1. Computer software licences 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 (44)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 2006

## 32. Trade and other payables

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
Trade payables to:					FRS 1 (74)
– Non-related 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 19)	541	262	–	–	FRS 11 (40)(b)
– Due to customers (Note 19)	80	60	–	–	FRS 11 (42)(b)
	621	322	–	–	
Accrued interest payable on borrowings	1,381	538	113	167	
Financial guarantee contracts	–	–	160	–	
Other accrual for operating expenses	1,379	1,052	58	28	
	16,231	10,556	477	549	

The carrying amounts of current trade and other payables approximated their fair values at the balance sheet date.

FRS 32 (86)

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

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

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Singapore Dollar	9,081	7,540	425	470
United States Dollar	4,316	1,878	52	79
Other	2,213	816	–	–
	15,610	10,234	477	549

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 33. Borrowings

	Group		Company		FRS 1 (74)
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'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	–	–	
	<u>9,524</u>	<u>15,670</u>	<u>3,500</u>	<u>10,200</u>	
<i>Non-current</i>					FRS 1 (52,57)
Bank borrowings	39,228	58,839	–	31,751	
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	–	–	
	<u>112,855</u>	<u>89,214</u>	<u>72,822</u>	<u>61,751</u>	
Total borrowings	<u>122,379</u>	<u>104,884</u>	<u>76,322</u>	<u>71,951</u>	

### (a) Security granted

At the balance sheet date, total borrowings included secured liabilities of \$88,065,000 (2005: \$70,720,000) and \$67,750,000 (2005: \$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 18) of the Company and certain subsidiaries. Bank borrowings of the Group and the Company are secured over the Group's trade receivables (Notes 17 and 21), investment properties (Note 27), development property (Note 28) and 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)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (b) Maturity of borrowings

The current borrowings (excluding finance lease liabilities) have an average maturity of 7.5 months (2005: 6.5 months) from the end of the financial year. The non-current borrowings [excluding finance lease liabilities (Note 36)] had the following maturity:

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

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Between two and five years	82,050	23,450	42,822	31,751
Later than five years	30,000	65,389	30,000	30,000
	<u>112,050</u>	<u>88,839</u>	<u>72,822</u>	<u>61,751</u>

In 2006, the Group refinanced its borrowings that fell between one and five years, by issuing convertible bonds (Note 34).

## (c) Currency risk

The carrying amounts of total borrowings were denominated in the following currencies at balance sheet date:

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

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Singapore Dollar	76,397	47,903	76,322	33,200
United States Dollar	45,982	56,981	—	38,751
	<u>122,379</u>	<u>104,884</u>	<u>76,322</u>	<u>71,951</u>

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (d) Interest rate risks

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

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

### Group

	<u>2006</u>		<u>2005</u>	
	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	8.0%	—	—	—
Redeemable preference shares	6.5%	—	6.5%	—
Finance lease liabilities	7.4%	—	7.0%	—

### Company

	<u>2006</u>		<u>2005</u>	
	SGD	USD	SGD	USD
Bank overdrafts	2.8%	—	2.2%	1.8%
Bank borrowings	—	—	—	3.2%
Convertible bonds	8.0%	—	—	—
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 2006

## (e) Carrying amounts and fair values

The carrying amounts of current borrowings approximated their fair values.  
The carrying amounts and fair values of non-current borrowings were as follows:

FRS 32 (86)

### Group

	<u>Carrying amounts</u>		<u>Fair values</u>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Bank borrowings	<b>39,228</b>	58,839	<b>38,193</b>	57,135
Convertible bonds	<b>42,822</b>	—	<b>42,752</b>	—
Redeemable preference shares	<b>30,000</b>	30,000	<b>28,450</b>	28,850
Finance lease liabilities	<b>805</b>	375	<b>800</b>	370

### Company

	<u>Carrying amounts</u>		<u>Fair values</u>	
	<b>2006</b>	2005	<b>2006</b>	2005
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Bank borrowings	—	31,751	—	29,987
Convertible bonds	<b>42,822</b>	—	<b>42,752</b>	—
Redeemable preference shares	<b>30,000</b>	30,000	<b>28,450</b>	28,850

The fair values were determined from cash flow analyses, discounted at the borrowing rates which the directors expected to be available to the Group at the balance sheet date.

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (f) Undrawn borrowing facilities <sup>1</sup>

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

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Floating rates				
– Expiring not later than one year	6,150	4,100	4,010	2,000
– Expiring later than one year	14,000	8,400	6,000	5,220
Fixed rates				
– Expiring not later than one year	18,750	12,500	5,000	7,060
	<b>38,900</b>	<b>25,000</b>	<b>15,010</b>	<b>14,280</b>

The facilities expiring within one year were annual facilities subjected to review at various dates during 2007. The other facilities were arranged to help finance the Group's acquisition and proposed expansion in Asia.

### 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)



# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 34. Convertible bonds

On 2 January 2006, the Company issued 5% convertible bonds at a nominal value of \$50,000,000. The bonds will mature five years from the issue date at their nominal value of \$50,000,000 or can be converted into shares of the Company at the holder's option at the rate of 33 shares per \$500 nominal value of the bonds.

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)(vi)], net of deferred income taxes.

FRS 32 (64)

FRS 32 (28)

FRS 32 (31)

The carrying amount of the liability component of the convertible bond at the balance sheet date is analysed as follows:

	Group and Company	
	2006	2005
	\$'000	\$'000
Face value of convertible bonds issued on 2 January 2006	50,000	—
Equity conversion component [Note 40(b)(vi)]	(7,761)	—
Liability component on initial recognition at 2 January 2006	42,239	—
Interest expense (Note 9)	3,083	—
Interest paid	(2,500)	—
Liability component at end of financial year (Note 33)	42,822	—

FRS 12 AppA (9)

The fair value of the liability component of the convertible bond at 31 December 2006 amounted to \$42,617,000. The fair value was calculated using cash flows discounted at a borrowings rate of 7.5%.

FRS 32 (86)

Interest expense on the convertible bond was calculated on the effective interest basis by applying the interest rate of 8.0% 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 2004, the Company issued 30 million cumulative redeemable preference shares at \$1 per share. The shares are mandatorily redeemable at \$1 per share 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 2006

## 36. Finance lease liabilities

	Group	
	2006	2005
	\$'000	\$'000
Minimum lease payments due:		
– Not later than one year	164	84
– Between two and 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

FRS 17 (31)(b)

The present value of finance lease liabilities is analysed as follows:

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

	Group	
	2006	2005
	\$'000	\$'000
Not later than one year (Note 33)	120	75
Later than one year (Note 33):		
– Between two and 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 (2005: \$45,000), which was computed based on the annual inflation rate published by the Singapore Department of Statistics, was recognised as a rental expense during the financial year.<sup>1</sup>

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,ii,iii)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 37. Provisions for other liabilities and charges

FRS 1 (75)(d)

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
<i>Current</i>					FRS 1 (52,60)
Warranty [Note (a)]	1,026	2,300	100	210	
Restructuring [Note (b)]	1,100	–	–	–	
	2,126	2,300	100	210	
<i>Non-current</i>					FRS 1 (52,60)
Legal claims [Note (c)]	320	265	100	–	
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 gave two-year warranty on certain products and undertake to repair or replace items that fail to perform satisfactorily. A provision was 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:

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
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)
End of financial year	1,026	2,300	100	210	

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

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (b) Restructuring

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

FRS 37 (85)(a)

The provision for restructuring of \$1,100,000 was an update of the amount of \$800,000 recorded in the Group's interim financial report for the six months ended 30 June 2006, following the finalisation of certain restructuring costs in the second half of 2006. The provision for restructuring is expected to be fully utilised during the first half of 2007.<sup>2</sup>

FRS 34 (26)

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

FRS 36 (130)(a)

## (c) Legal claims

Provisions for legal claims amounted to \$320,000 (2005: \$265,000) and \$100,000 (2005: 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 2008. 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 2006. 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)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (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 were as follows:

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
Beginning of financial year	1,320	1,305	95	88	FRS 37 (84)(a)
Amortisation of discount (Note 9)	15	15	5	7	FRS 37 (84)(e)
End of financial year	1,335	1,320	100	95	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 2006

## 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)

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'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)
	<u>(3,319)</u>	<u>(3,110)</u>	<u>–</u>	<u>–</u>	FRS 1 (52,60)
Deferred income tax liabilities:					
– to be settled within one year	1,627	1,037	600	586	FRS 1 (52,60)
– to be settled after one year	10,743	8,016	3,175	1,692	FRS 1 (52,60)
	<u>12,370</u>	<u>9,053</u>	<u>3,775</u>	<u>2,278</u>	
	<u>9,051</u>	<u>5,943</u>	<u>3,775</u>	<u>2,278</u>	

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

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
Beginning of financial year	5,943	3,833	2,278	2,235	
Currency translation differences	(774)	(778)	–	–	
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	1,787	253	1,616	23	
End of financial year	<u>9,051</u>	<u>5,943</u>	<u>3,775</u>	<u>2,278</u>	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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

FRS 12 (81)(a)

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Fair value reserve [Note 40(b)(iii)]	142	10	31	19
Hedging reserve [Note 40(b)(iv)]	42	4	33	2
Equity component of convertible bonds [Note 40(b)(vi)]	1,552	–	1,552	–
Asset revaluation reserve [Note 40(b)(vii)]	51	239	–	–
	<b>1,787</b>	<b>253</b>	<b>1,616</b>	<b>21</b>

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 had unrecognised tax losses of \$5,000,000 (2005: \$5,294,000) at the balance sheet date 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 2008.

FRS 12 (82)

FRS 12 (81)(e)

Deferred income tax liabilities amounting to \$170,000 (2005: \$127,500) were 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 were permanently reinvested and totalled \$2,000,000 at 31 December 2006 (2005: \$1,500,000).

FRS 12 (81)(f)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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

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

## Group <sup>1</sup>

### Deferred income tax liabilities

	Accelerated tax depreciation \$'000	Fair value gains \$'000	Convertible bonds \$'000	Other \$'000	Total \$'000
<b>2006</b>					
Beginning of financial year	8,085	787	–	1,083	9,955
Currency translation differences	(330)	(101)	–	(123)	(554)
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	–	235	1,552	–	1,787
End of financial year	6,696	4,096	1,359	1,373	13,524
<b>2005</b>					
Beginning of financial year	6,540	576	–	284	7,400
Currency translation differences	(241)	(42)	–	–	(283)
Charged to:					
– Income statement	1,786	–	–	799	2,585
– Equity	–	253	–	–	253
End of financial year	8,085	787	–	1,083	9,955



# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Deferred income tax assets

	Provisions \$'000	Tax losses \$'000	Other \$'000	Total \$'000
<b>2006</b>				
Beginning of financial year	(816)	(1,960)	(1,236)	(4,012)
Currency translation differences	(25)	(109)	(86)	(220)
Acquisition of a subsidiary	(250)	–	–	(250)
(Credited)/charged to income statement	(538)	1,000	(453)	9
End of financial year	(1,629)	(1,069)	(1,775)	(4,473)
<b>2005</b>				
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
End of financial year	(816)	(1,960)	(1,236)	(4,012)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Company <sup>1</sup>

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

### Deferred income tax liabilities

	Accelerated tax depreciation \$'000	Fair value gains \$'000	Convertible bonds \$'000	Total \$'000
<b>2006</b>				
Beginning of financial year	2,243	85	–	2,328
Charged/(credited) to:				
– income statement	113	–	(193)	(80)
– equity	–	64	1,552	1,616
End of financial year	2,356	149	1,359	3,864
<b>2005</b>				
Beginning of financial year	2,187	64	–	2,251
Charged to:				
– income statement	56	–	–	56
– equity	–	21	–	21
End of financial year	2,243	85	–	2,328

### Deferred income tax assets

	Provisions \$'000	Other \$'000	Total \$'000
<b>2006</b>			
Beginning of financial year	(46)	(4)	(50)
Charged/(credited) to income statement	22	(61)	(39)
End of financial year	(24)	(65)	(89)
<b>2005</b>			
Beginning of financial year	(20)	6	(14)
Credited to income statement	(26)	(10)	(36)
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 2006

## 39. Share capital and treasury shares

	No. of shares			Amount				
	Authorised share capital	Issued share capital	Treasury shares	Authorised share capital	Share capital	Share premium	Total share capital and share premium	Treasury shares
	'000	'000	'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2006</b>								
Beginning of financial year	50,000	20,000	—	50,000	20,000	12,024	<b>32,024</b>	—
Effect of Companies (Amendment) Act 2005	(50,000)	—	—	(50,000)	12,024	(12,024)	—	—
Purchase of treasury shares	—	—	(1,000)	—	—	—	—	<b>(2,072)</b>
Share issue	—	4,050	—	—	9,884	—	<b>9,884</b>	—
Share issue expenses	—	—	—	—	(413)	—	<b>(413)</b>	—
Treasury shares re-issued	—	—	750	—	—	—	—	<b>1,928</b>
Gain on treasury shares transferred to capital reserve	—	—	—	—	—	—	—	<b>(374)</b>
End of financial year	—	<b>24,050</b>	<b>(250)</b>	—	<b>41,495</b>	—	<b>41,495</b>	<b>(518)</b>
<b>2005</b>								
Beginning and end of financial year	<b>50,000</b>	<b>20,000</b>	—	<b>50,000</b>	<b>20,000</b>	<b>12,024</b>	<b>32,024</b>	—

Under the Companies (Amendment) Act 2005 that came into effect on 30 January 2006, the concepts of par value and authorised share capital were abolished and the amount in the share premium account as at 30 January 2006 became part of the Company's share capital.

All issued shares are fully paid.<sup>1</sup>

On 1 March 2006, the Company issued 4,050,000 ordinary shares for a total consideration of \$9,884,000 for cash to provide funds for the expansion of the Group's operations.

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

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (a) Treasury shares

The Company acquired 1,000,000 shares in the Company through purchases on the Singapore Exchange during the year. The total amount paid to acquire the shares was \$2,072,000 and this was deducted against shareholders' equity.

FRS 32 (33)

The Company re-issued 750,000 treasury shares during the year pursuant to the PwC Employee Share Option Scheme at the exercise price of \$1.31 each.

## (b) Share options <sup>2</sup>

Share options were 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 2004.

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

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

Once the options are vested, they are exercisable for a contractual option term of four 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 2006

On 1 January 2006, options to subscribe for 964,000 ordinary shares of the Company at an exercise price of \$2.95 per ordinary share were granted pursuant to the Scheme ("2006 Options"). The 2006 Options are exercisable from 1 January 2008 and expire on 31 December 2011.

FRS 1 (76)(a)(vii)

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

FRS 102 (45)(b)

← Number of ordinary shares under options outstanding →						
	Beginning of financial year	Granted during financial year	Forfeited during financial year	Exercised during financial year	End of financial year	Exercise price Exercise period
<b>Group and Company</b>						
<b>2006</b>						
2004 Options	1,850,000	—	(100,000)	(750,000)	1,000,000	\$1.31 1.1.2006 – 31.12.2009
2005 Options	4,732,000	—	(200,000)	—	4,532,000	\$1.28 1.1.2007 – 31.12.2010
2006 Options	—	964,000	—	—	964,000	\$2.95 1.1.2008 – 31.12.2011
	<u>6,582,000</u>	<u>964,000</u>	<u>(300,000)</u>	<u>(750,000)</u>	<u>6,496,000</u>	
<b>2005</b>						
2004 Options	2,050,000	—	(200,000)	—	1,850,000	\$1.31 1.1.2006 – 31.12.2009
2005 Options	—	4,965,000	(233,000)	—	4,732,000	\$1.28 1.1.2007 – 31.12.2010
	<u>2,050,000</u>	<u>4,965,000</u>	<u>(433,000)</u>	<u>—</u>	<u>6,582,000</u>	

Out of the outstanding options on 6,496,000 shares (2005: 6,582,000), options on 1,000,000 shares (2005: Nil) are exercisable. Options exercised in 2006 resulted in 750,000 treasury shares (2005: Nil) being issued at the exercise price of \$1.31 (2005: Nil) each.

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

The fair value of options granted on 1 January 2006 determined using the Binomial valuation model was \$600,000 (2005: \$930,000). The significant inputs into the model were share price of \$3.00 (2005: \$1.30), at the grant date, exercise price shown above, standard deviation of expected share price returns of 30% (2005: 27%), the option life shown above and annual risk-free interest rate of 5% (2005: 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)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Guidance Notes

### Share capital 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 shall disclose, at a minimum, the following:

FRS 102 (45)

- (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)(a)

- (b) the number and weighted average exercise prices of share options for each of the following groups of options:
  - (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 instead disclose the weighted average share price during the period.

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)

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:
  - (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.

FRS 102 (47)(a)

- (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:
  - (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.

FRS 102 (47)(b)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Guidance Notes

- (c) for share-based payment arrangements that were modified during the period:
- (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.
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.
- The entity should at least disclose the following:
- (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;
  - (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).

FRS 102 (47)(c)

FRS 102 (50)

FRS 102 (51)(a)

FRS 102 (51)(b)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 40. Other reserves

FRS 1 (97)(c)

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
<b>(a) Composition:</b>					
Share option reserve	1,636	1,892	1,636	1,892	
Capital reserve	374	—	374	—	
Fair value reserve	573	125	251	127	
Hedging reserve	88	24	62	12	
Currency translation reserve	3,230	2,324	—	—	
Equity component of convertible bonds	6,209	—	6,209	—	
Asset revaluation reserve	3,454	3,257	—	—	
	<b>15,564</b>	<b>7,622</b>	<b>8,532</b>	<b>2,031</b>	FRS 1 (97)(c)
<b>(b) Movements:</b>					
<b>(i) Share option reserve</b>					
Beginning of financial year	1,892	1,270	1,892	1,270	
Employee share option scheme:					
– Value of employee services (Notes 7 and 39)	690	622	690	622	FRS 1 (97)(a)
– Transfer to treasury shares on exercise of share options	(946)	—	(946)	—	
End of financial year	<b>1,636</b>	<b>1,892</b>	<b>1,636</b>	<b>1,892</b>	FRS 1 (97)(c)
<b>(ii) Capital reserve</b>					
Beginning of financial year	—	—	—	—	
Gain on re-issuance of treasury shares (Note 39)	374	—	374	—	
End of financial year	<b>374</b>	<b>—</b>	<b>374</b>	<b>—</b>	
<b>(iii) Fair value reserve<sup>1</sup></b>					
Beginning of financial year	125	47	127	52	FRS 1 (97)(c)
Financial assets, available-for-sale					
– Fair value gains (Note 16)	710	88	155	94	
– Tax on fair value gains (Note 38)	(142)	(10)	(31)	(19)	
	<b>568</b>	<b>78</b>	<b>124</b>	<b>75</b>	
– Transfer to income statement on disposal	(150)	—	—	—	
Share of associated companies' fair value gains on financial assets, available for sale	30	—	—	—	
End of financial year	<b>573</b>	<b>125</b>	<b>251</b>	<b>127</b>	



# Notes to the Financial Statements

for the financial year ended 31 December 2006

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<b>(iv) Hedging reserve</b>				
Balance at beginning of financial year	24	8	12	6
Cash flow hedges	106	20	83	8
Tax on fair value gain	(42)	(4)	(33)	(2)
	64	16	50	6
Balance at end of financial year	88	24	62	12
<b>(v) Currency translation reserve<sup>1</sup></b>				
Beginning of financial year	2,324	2,454	—	—
Release on disposal of a subsidiary (Note 13)	(1,200)	—	—	—
Net currency translation differences of financial statements of foreign subsidiaries, associated companies and borrowings designated as hedges against foreign subsidiaries	2,658	(170)	—	—
Minority interests <sup>1</sup>	(552)	40	—	—
	2,106	(130)	—	—
End of financial year	3,230	2,324	—	—
<b>(vi) Equity component of convertible bonds</b>				
Convertible bond – equity component (Note 34)	7,761	—	7,761	—
Tax on liability component	(1,552)	—	(1,552)	—
End of financial year	6,209	—	6,209	—
<b>(vii) Asset revaluation reserve<sup>1</sup></b>				
Beginning of financial year	3,257	2,456	—	—
Revaluation of:				
– Investment properties (Note 27)	253	60	—	—
– Land and buildings (Note 30)	—	1,133	—	—
Tax on revaluation gains	(51)	(239)	—	—
Minority interests <sup>1</sup>	(5)	(153)	—	—
	197	801	—	—
End of financial year	3,454	3,257	—	—

Revaluation and other reserves are non-distributable.<sup>2</sup>

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Guidance Notes

### Other reserves

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

### Distributability of reserves

2. Distributability or otherwise of the reserves would depend on the Articles of Association of the company and subject to any regulatory restrictions.

FRS 16 (77)(f)

## 41. Retained profits <sup>1</sup>

- (a) Retained profits of the Group are distributable except for accumulated retained profits of associated companies amounting to \$405,000 (2005: \$255,000) and the amount of \$518,000 (2005: Nil) utilised to purchase treasury shares. Retained profits of the Company are distributable except for the amount of \$518,000 (2005: Nil) utilised to purchase treasury shares.
- (b) Movements in retained profits for the Company are as follows:

FRS 1 (76)(b)

	Company	
	2006	2005
	\$'000	\$'000
Beginning of financial year	310	5,260
Total profit	10,188	10,786
Dividends paid (Note 42)	(10,102)	(15,736)
End of financial year	396	310

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

## Guidance Notes

### Retained earnings

1. This disclosure note is voluntary. Recommended as a good practice.

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 42. Dividends

	Group and Company		
	2006	2005	
	\$'000	\$'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 2007, 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 did 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 2007.

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

## 43. Contingencies

### (a) Contingent liabilities<sup>1</sup>

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 by a non-related customer 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 2006 (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 being, dependent on the aggregate result of PwC Logistics for the 18-month period ending 31 December 2007.

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 2006

## 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 analysed as follows:

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'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)
	<b>4,653</b>	<b>4,591</b>	<b>1,000</b>	<b>700</b>	

### (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 payable under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are analysed as follows:

FRS 17 (35)(a)

	Group		Company		
	2006	2005	2006	2005	
	\$'000	\$'000	\$'000	\$'000	
Not later than one year	11,664	10,604	—	—	FRS 17 (35)(a)(i)
Between two and five years	45,651	45,651	—	—	FRS 17 (35)(a)(ii)
Later than five years	15,710	27,374	—	—	FRS 17 (35)(a)(iii)
	<b>73,025</b>	<b>83,629</b>	<b>—</b>	<b>—</b>	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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

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

FRS 17 (56)(a)

	Group and Company		
	2006	2005	
	\$'000	\$'000	
Not later than one year	48	52	
Between two and five years	182	—	FRS 17 (56)(a)(i)
Later than five years	—	—	FRS 17 (56)(a)(ii)
	230	52	FRS 17 (56)(a)(iii)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 45. Financial risk management <sup>1,2,3</sup>

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 currency 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 subject 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 and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. To manage the currency risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward currency 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 three months, and approximately 90% (2005: 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 exposures to the net assets of the Group's foreign operations in the People's Republic of China, Hong Kong, the Philippines and Thailand are managed primarily through borrowings denominated in the relevant foreign currencies.

##### Market risk

The Group is exposed to equity securities market risk from its investments. These positions are not hedged.

FRS 32 (52)(a)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (b) Cash flow and fair value interest rate risks

FRS 32 (52)(a)(ii)

FRS 32 (60)(a)

FRS 32 (71)

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.

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.

### 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
<b>At 31 December 2006</b>								
<b>Assets</b>								
Cash and cash equivalents	1,322	–	20,084	–	–	–	822	22,228
Trade and other receivables	–	–	372	256	3,042	80	18,337	22,087
Other financial assets	–	–	2,720	3,250	16,372	1,443	7,834	31,619
Investment in associated companies	–	–	–	–	–	–	8,208	8,208
Non-financial assets	–	–	–	–	–	–	214,982	214,982
<b>Total assets</b>	<b>1,322</b>	<b>–</b>	<b>23,176</b>	<b>3,506</b>	<b>19,414</b>	<b>1,523</b>	<b>250,183</b>	<b>299,124</b>
<b>Liabilities</b>								
Borrowings	1,365	5,288	2,871	–	82,855	30,000	–	122,379
Other financial liabilities	–	–	223	217	135	–	16,231	16,806
Non-financial liabilities	–	–	–	–	–	–	19,313	19,313
<b>Total liabilities</b>	<b>1,365</b>	<b>5,288</b>	<b>3,094</b>	<b>217</b>	<b>82,990</b>	<b>30,000</b>	<b>35,544</b>	<b>158,498</b>

# Notes to the Financial Statements

for the financial year ended 31 December 2006

FRS 32 (67)  
FRS 32 (71)

	Variable rates		Fixed rates					
	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	Non- interest bearing \$'000	Total \$'000
<b>At 31 December</b>								
<b>2005</b>								
<b>Assets</b>								
Cash and cash equivalents	2,351	—	32,661	—	—	—	1,200	36,212
Trade and other receivables	—	—	760	559	680	1,310	14,754	18,063
Other financial assets	—	—	2,234	1,911	13,055	941	5,279	23,420
Investment in associated companies	—	—	—	—	—	—	8,569	8,569
Non-financial assets	—	—	—	—	—	—	143,622	143,622
<b>Total assets</b>	<b>2,351</b>	<b>—</b>	<b>35,655</b>	<b>2,470</b>	<b>13,735</b>	<b>2,251</b>	<b>173,424</b>	<b>229,886</b>
<b>Liabilities</b>								
Borrowings	8,830	4,800	2,040	—	22,814	66,400	—	104,884
Other financial liabilities	—	—	—	—	—	—	10,840	10,840
Non-financial liabilities	—	—	—	—	—	—	15,784	15,784
<b>Total liabilities</b>	<b>8,830</b>	<b>4,800</b>	<b>2,040</b>	<b>—</b>	<b>22,814</b>	<b>66,400</b>	<b>26,624</b>	<b>131,508</b>



# Notes to the Financial Statements

for the financial year ended 31 December 2006

## Company

FRS 32 (67)  
FRS 32 (71)

	Variable rates		Fixed rates				Non-interest bearing	Total
	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		
<b>At 31 December 2006</b>								
<b>Assets</b>								
Cash and cash equivalents	–	–	1,659	–	–	–	343	2,002
Trade and other receivables	3,136	–	753	615	–	–	6,194	10,698
Other financial assets	–	–	–	232	1,534	–	–	1,766
Investments in associated companies, subsidiaries and JVs	–	–	–	–	–	–	112,290	112,290
Non-financial assets	–	–	–	–	–	–	4,305	4,305
<b>Total assets</b>	<b>3,136</b>	<b>–</b>	<b>2,412</b>	<b>847</b>	<b>1,534</b>	<b>–</b>	<b>123,132</b>	<b>131,061</b>
<b>Liabilities</b>								
Borrowings	1,200	2,300	–	–	42,822	30,000	–	76,322
Other financial liabilities	–	–	–	–	–	–	524	524
Non-financial liabilities	–	–	–	–	–	–	4,310	4,310
<b>Total liabilities</b>	<b>1,200</b>	<b>2,300</b>	<b>–</b>	<b>–</b>	<b>42,822</b>	<b>30,000</b>	<b>4,834</b>	<b>81,156</b>

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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
<b>At 31 December 2005</b>								
<b>Assets</b>								
Cash and cash equivalents	–	–	2,734	–	–	–	243	2,977
Trade and other receivables	3,200	–	710	577	100	–	729	5,316
Other financial assets	–	–	–	78	1,224	–	–	1,302
Investments in associated companies, subsidiaries and JVs	–	–	–	–	–	–	98,340	98,340
Non-financial assets	–	–	–	–	–	–	1,885	1,885
<b>Total assets</b>	<b>3,200</b>	<b>–</b>	<b>3,444</b>	<b>655</b>	<b>1,324</b>	<b>–</b>	<b>101,197</b>	<b>109,820</b>
<b>Liabilities</b>								
Borrowings	8,395	1,805	–	–	31,751	30,000	–	71,951
Other financial liabilities	–	–	–	–	–	–	596	596
Non-financial liabilities	–	–	–	–	–	–	2,908	2,908
<b>Total liabilities</b>	<b>8,395</b>	<b>1,805</b>	<b>–</b>	<b>–</b>	<b>31,751</b>	<b>30,000</b>	<b>3,504</b>	<b>75,455</b>

# Notes to the Financial Statements

for the financial year ended 31 December 2006

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 at the balance sheet date is analysed 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	
<i>Group</i>							
<b>At 31 December 2006</b>							
Borrowings	1,365	5,288	2,871	–	82,550	30,305	122,379
Effect of interest rate swaps (Note 15)	(1,070)	(3,254)	–	–	–	4,324	–
	<u>295</u>	<u>2,034</u>	<u>2,871</u>	<u>–</u>	<u>82,550</u>	<u>34,629</u>	<u>122,379</u>
<b>At 31 December 2005</b>							
Borrowings	8,830	4,800	2,040	–	22,814	66,400	104,884
Effect of interest rate swaps (Note 15)	(3,839)	–	–	–	2,839	1,000	–
	<u>4,991</u>	<u>4,800</u>	<u>2,040</u>	<u>–</u>	<u>25,653</u>	<u>67,400</u>	<u>104,884</u>
<i>Company</i>							
<b>At 31 December 2006</b>							
Borrowings	1,200	2,300	–	–	42,822	30,000	76,322
Effect of interest rate swaps (Note 15)	(1,080)	(1,090)	–	–	–	2,170	–
	<u>120</u>	<u>1,210</u>	<u>–</u>	<u>–</u>	<u>42,822</u>	<u>32,170</u>	<u>76,322</u>
<b>At 31 December 2005</b>							
Borrowings	8,395	1,805	–	–	31,751	30,000	71,951
Effect of interest rate swaps (Note 15)	(1,200)	–	–	–	200	1,000	–
	<u>7,195</u>	<u>1,805</u>	<u>–</u>	<u>–</u>	<u>31,951</u>	<u>31,000</u>	<u>71,951</u>

## (c) Credit risk

FRS 32 (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)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (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)

## 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's financial risks are limited, 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 2006

## 46. Immediate and ultimate holding corporations <sup>1,2</sup>

The Company's immediate holding corporation is PwC Corporate Limited, incorporated in Singapore. The ultimate holding corporation <sup>3</sup> is PwC Global 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 (e.g. Annual Report).
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 2006

## 47. Related party transactions

The following transactions <sup>1,2</sup> took place between the Group and related parties <sup>3</sup> during the financial year:

FRS 24 (17,22)

### (a) Sales and purchases of goods and services

	Group	
	2006	2005
	\$'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
	<b>2,270</b>	<b>2,521</b>
Purchases of materials from immediate holding corporation	<b>601</b>	504
Payments made on behalf and reimbursed by the immediate holding corporation	<b>186</b>	153
Professional fees paid to ABAS Consultancy Pte Ltd	<b>212</b>	149
Technical fees paid to GTS Pte Ltd	<b>15</b>	10

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

FRS 24 (17)

Outstanding balances at 31 December 2006, arising from sale/purchase of goods and services, are set out in Notes 17 and 32, respectively.

FRS 24 (17)(b)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## (b) Key management personnel compensation <sup>4,5,6,7</sup>

FRS 24 (16)

Key management personnel compensation is analysed as follows:

	Group		
	2006	2005	
	\$'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 expense	300	280	FRS 24 (16)(e)
	<u>4,256</u>	<u>2,278</u>	

Included in the above was total compensation to directors of the Company amounting to \$2,030,000 (2005: \$1,940,000).

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

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 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. In practice, the names of immediate and ultimate holding company and significant subsidiaries and associated companies, joint ventures are disclosed.
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 item is 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 may be excluded from disclosure if they are not considered as key management personnel of the Group.
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 2006

## 48. Segment information <sup>1,2</sup>

### Primary reporting format - business segments

	Component parts \$'000	Furniture \$'000	Construction \$'000	Other \$'000	Total for continuing operations \$'000	Discontinued operations - glass segment \$'000	
<b>Financial year ended 31 December 2006</b>							
Sales:							
– external sales	116,955	75,929	14,760	2,570	210,214	1,200	FRS 14 (51,67)
– inter-segment sales	34,000	9,800	–	–	43,800	45	
	150,955	85,729	14,760	2,570	254,014	1,245	
Elimination					(43,800)	(45)	
					210,214	1,200	
<b>Segment result</b> <sup>3</sup>	42,505	8,743	1,201	306	52,755	208	FRS 14 (52)
Other gains - net					2,515	2	
Unallocated costs					(626)	(40)	
					54,644	170	
Finance expense					(7,073)	(3)	
Share of loss of associated companies	–	(324)	–	150	(174)	–	FRS 14 (64)
Profit before income tax					47,397	167	
Income tax expense					(14,921)	(67)	
<b>Total profit</b>					32,476	100	FRS 14 (67)
<b>Other segment items</b>							FRS 14 (57)
Capital expenditure <sup>8</sup> :							
– property, plant and equipment	65,080	9,031	2,505	643	77,259	280	
– development property <sup>9</sup>	–	–	–	360	360	–	
– intangible assets	6,447	–	–	357	6,804	9	
Depreciation	10,671	4,648	2,255	101	17,675	79	FRS 14 (58)
Amortisation	655	–	–	120	775	25	FRS 14 (58)
Impairment losses:							FRS 36 (129)(a)
– goodwill	–	4,650	–	–	4,650	–	FRS 14 (61)
Other non-cash expenses	220	174	130	216	740	–	FRS 14 (59)
Restructuring costs <sup>10</sup>	–	1,100	–	–	1,100	–	FRS 14 (59)
Write-down of inventory <sup>10</sup>	100	–	–	–	100	–	FRS 14 (59)

	Component parts \$'000	Furniture \$'000	Construction \$'000	Other \$'000	Elimination \$'000	Total Consolidated \$'000	
<b>Segment assets</b> <sup>4,5</sup>	134,005	86,396	28,701	1,774	(15,478)	235,398	FRS 14 (55)
Associated companies	–	6,800	–	1,408	–	8,208	FRS 14 (66)
Unallocated assets						52,185	
						295,791	
Disposal group - glass segment						3,333	FRS 14 (67)
<b>Consolidated total assets</b>						299,124	
<b>Segment liabilities</b> <sup>6,7</sup>	(17,377)	(9,412)	(2,532)	(689)	1,077	(28,933)	FRS 14 (56)
Unallocated liabilities						(129,345)	
						(158,278)	
Liabilities associated with disposal group - glass segment						(220)	FRS 14 (67)
<b>Consolidated total liabilities</b>						(158,498)	

# Notes to the Financial Statements

for the financial year ended 31 December 2006

	Component parts \$'000	Furniture \$'000	Construction \$'000	Other \$'000	Total for continuing operations \$'000	Discontinued operations - glass segment \$'000	
<b>Financial year ended 31 December 2005</b>							
Sales:							FRS 14 (51,67)
– external sales	91,495	10,865	6,359	3,641	112,360	4,600	
– inter-segment sales	32,042	3,458	–	–	35,500	631	
	123,537	14,323	6,359	3,641	147,860	5,231	
Elimination					(35,500)	(631)	
					112,360	4,600	
Segment result <sup>3</sup>	33,539	1,650	647	686	36,522	65	FRS 14 (52)
Other gains/(losses) - net					(505)	9	
Unallocated costs					(944)	(223)	
					35,073	(149)	
Finance expense					(9,060)	(11)	
Share of profit of associated companies	–	40	–	105	145	–	FRS 14 (64)
Profit/(loss) before income tax					26,158	(160)	
Income tax expense					(8,985)	(320)	
<b>Total profit/(loss)</b>					17,173	(480)	FRS 14 (67)
<b>Other segment items</b>							
Capital expenditure <sup>8</sup> :							FRS 14 (57)
– property, plant and equipment	4,007	700	530	274	5,511	531	
– development property <sup>9</sup>	–	–	–	2,040	2,040	–	
– intangible assets	688	–	–	–	688	12	
Depreciation	5,283	2,330	1,389	580	9,582	80	FRS 14 (58)
Amortisation	405	70	–	40	515	50	FRS 14 (58)
Other non-cash expenses	124	54	52	80	310	43	
	Component parts \$'000	Furniture \$'000	Construction \$'000	Other \$'000	Elimination \$'000	Total Consolidated \$'000	
Segment assets <sup>4,5</sup>	102,613	65,993	18,213	1,925	(7,965)	180,779	FRS 14 (55)
Associated companies	–	4,294	–	4,275	–	8,569	FRS 14 (66)
Unallocated assets						38,258	
						227,606	
Disposal group - glass segment						2,280	FRS 14 (67)
<b>Consolidated total assets</b>						229,886	
Segment liabilities <sup>6,7</sup>	(10,313)	(7,500)	(802)	(900)	2,295	(17,220)	FRS 14 (56)
Unallocated liabilities						(112,849)	
						(130,069)	
Liabilities associated with disposal group - glass segment						(1,439)	FRS 14 (67)
<b>Consolidated total liabilities</b>						(131,508)	FRS 14 (57)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

At 31 December 2006, 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 logistics services and investment holding, neither of which constitutes a separately reportable segment.

Inter-segment transactions are recorded at their transacted price which is generally at fair value. Unallocated costs represent corporate expenses. Segment assets<sup>4,5</sup> 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<sup>6,7</sup> 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 the 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 the 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 the 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 2006

FRS 14 (69)(a)

	Sales for continuing operations		Sales for discontinued operations		Total sales	
	2006	2005	2006	2005	2006	2005
	\$'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
	<u>210,214</u>	<u>112,360</u>	<u>1,200</u>	<u>4,600</u>	<u>211,414</u>	<u>116,960</u>

FRS 14 (69)(b)

	Total consolidated assets	
	2006	2005
	\$'000	\$'000
Singapore	117,413	109,800
People's Republic of China	71,307	51,235
Europe	45,700	21,920
Other countries	9,793	5,870
	<u>244,213</u>	<u>188,825</u>
Associated companies	8,208	8,569
Unallocated assets	46,703	32,492
	<u>299,124</u>	<u>229,886</u>

FRS 14 (69)(c)

	Capital expenditure for continuing operations		Capital expenditure for discontinued operations		Total consolidated capital expenditure	
	2006	2005	2006	2005	2006	2005
	\$'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
	<u>84,423</u>	<u>8,239</u>	<u>289</u>	<u>543</u>	<u>84,712</u>	<u>8,782</u>

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 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 the business segments, whilst the secondary reporting format comprises 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 interests. 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)

#### 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 2006

## 49. Event occurring after balance sheet date

On 25 February 2007, the Group issued \$2,300,000 6.5% Singapore-dollar 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 2012.

FRS 10 (21)

FRS 10 (22)(c)

On 1 March 2007, 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 identifiable net 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 2007.

FRS 10 (21)

FRS 10 (22)(a)

FRS 103 (66)(b)

## 50. New accounting standards and FRS interpretations

Certain new standards, amendments and interpretations to existing standards have been published and they are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

FRS 8 (30)(a)

### (a) FRS 40 *Investment Property*

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

FRS 8 (31)(a)

FRS 8 (31)(c,d)

In 2006, the Group occupied approximately 70% of its corporate headquarters at PwC Centre and leased out the remaining 30% to non-related parties. The entire property was accounted for as an item of property, plant and equipment in these financial statements.

Under FRS 40, when a portion of a property is leased out and another portion is held for own-use, the portions are required to be accounted for separately if these portions could be sold or leased out separately under a finance lease. Consequently, the portion of PwC Centre that is leased out to non-related parties has been reclassified to investment property on transition to FRS 40 on 1 January 2007.

FRS 40 (10)

In addition, the Group had accounted for its investment properties under FRS 25 *Investments* as set out in Note 2.9 in these financial statements. Under FRS 40, changes in fair values of investment properties are required to be included in the income statement for the period in which the changes arise.

FRS 40 (35)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

On transition to FRS 40 on 1 January 2007, the estimated effects on the balance sheet as at 31 December 2006 and income statement for the year ended 31 December 2006 are as follows:

FRS 8 (31)(e)

	Increase/(decrease) \$'000
<i>Balance sheet at 31 December 2006</i>	
Investment property	10,000
Property, plant and equipment	(9,800)
Retained earnings	1,050
Asset revaluation reserve	(850)
<i>Income statement for year ended 31 December 2006</i>	
Fair value gains on investment property	253
Deferred income tax expense	50

- (b) FRS 107 *Financial Instruments: Disclosures*, and a complementary Amendment to FRS 1 *Presentation of Financial Statements – Capital Disclosures*

FRS 8 (31)(a)

FRS 8 (c,d)

The Group has adopted FRS 107 on 1 January 2007, which is the effective date of the Standard.

FRS 107 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including minimum disclosures about credit risk, liquidity risk and market risk (including sensitivity analysis to market risk). It replaces the disclosure requirements in FRS 32 *Financial Instruments: Disclosure and Presentation*.

The amendment to FRS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group has assessed the impact of FRS 107 and the amendment to FRS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of FRS 1.

## Guidance Notes

### New accounting standards and FRS interpretations

1. The effects of adoption of standards, interpretations and amendments to standards that are issued up to the date of the issue of the financial statements should be disclosed.

## 51. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of PwC Holdings Limited on 18 March 2007.

FRS 10 (17)

# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 52. Listing of significant <sup>1,2</sup> companies in the Group

Name of companies	Principal activities <sup>6</sup>	Country of business/ incorporation	Equity holding <sup>4</sup>	
			2006 %	2005 %
Significant subsidiaries held by the Company				
PwC Construction Pte Ltd <sup>(a)</sup>	Construction of buildings and equipment	Singapore	100	100
PwC Property (Singapore) Pte Ltd <sup>(a)</sup>	Investment holding	Singapore	100	100
PwC Furniture (PRC) Co., Ltd <sup>(d)</sup>	Manufacture of furniture	People's Rep. of China	85	85
PwC Components (Singapore) Pte Ltd <sup>(a)</sup>	Manufacture of component parts	Singapore	65	65
PwC Components (Philippines) Pte Ltd <sup>(b),(g)</sup>	Manufacture of component parts	Philippines	70	—
PwC Components (Philippines) Subsidiary Pte Ltd <sup>(b),(g)</sup>	Purchasing agent	Philippines	70	—
PwC Logistics Pte Ltd	Provision of logistics services	Singapore	—	100
PwC Omikron Sdn Bhd <sup>(c)</sup>	Manufacture of glass	Malaysia	100	100
Significant joint venture held by the Company				
PwC JV Logistics (PRC) Co., Ltd <sup>(d),(f)</sup>	Provision of logistics services	People's Rep. of China	60	60
Significant associated companies held by the Company				
PwC A Property (Hong Kong) Limited <sup>(e)</sup>	Investment holding	Hong Kong	35	35
PwC A Furniture (Thailand) Ltd <sup>(e)</sup>	Manufacture of furniture	Thailand	25	25
<div>(a) Audited <sup>5</sup> by PricewaterhouseCoopers, Singapore</div> <div>(b) Audited <sup>5</sup> by PricewaterhouseCoopers, Philippines</div> <div>(c) Audited <sup>5</sup> by Tan &amp; Co., Malaysia</div> <div>(d) Audited <sup>5</sup> by Lim &amp; Koh Partnership, China</div> <div>(e) Not required to be audited <sup>5</sup> under the laws of the country of incorporation</div> <div>(f) Not consolidated as the entity is not controlled by the Group and deemed to be a joint venture as the Group shares the control of the entity <sup>1(b)</sup></div> <div>(g) Financial year ends on 30 September <sup>1(c),6</sup></div> <div>(h) Deemed to be a subsidiary as the Group controls the entity <sup>1(a)</sup></div>				



# Notes to the Financial Statements

for the financial year ended 31 December 2006

## 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;
  - (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 (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances.

FRS 27 (40)
2. When separate financial statements are prepared for a parent that, in accordance with paragraph 10, elects not to prepare consolidated financial statements, those separate financial statements shall disclose:
  - (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).

FRS 27 (41)
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:
  - (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 shall identify the financial statements prepared in accordance with FRS 27 paragraph 9, FRS 28 and FRS 31 to which they relate.

FRS 27 (42)
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 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 its significant subsidiaries and associated companies. It is a good practice for listed companies to inform the auditing firm(s) that their name(s) will be disclosed in the financial statements.
 

SGX 717
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)