

# Notes to the Financial Statements

for the financial year ended 31 December 2007

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

## 1. General information

PwC Holdings Ltd (the “Company”) is listed on the Singapore Exchange and incorporated and domiciled in Singapore. The address of its registered office is 350 Harbour Street, PwC Centre, #30–00, Singapore 049929.<sup>1,2</sup>

FRS 1(126)(a)

The principal activities of the Company are the manufacturing and sale of electronic component parts, and investment holding. The principal activities of its subsidiaries are the manufacturing and sale of electronic component parts, the sale of furniture, the construction of specialised equipment, and logistic services.

FRS 1(126)(b)

The Group acquired the control of XYZ Electronics Group (now known as PwC Components (Philippines) Group), an electronics components manufacturing group operating in the Philippines (Note 27) during the financial year.

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The glass business segment was discontinued during the financial year (Note 12).

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### Guidance Notes

#### General information

1. The following items shall be disclosed in the financial statements unless they are disclosed elsewhere in information published with the financial statements (e.g. in the other sections of the statutory accounts or Annual Report):
  - (a) the domicile and legal form of the reporting entity, its country of incorporation and the address of the registered office (or principal place of business, if different from the registered office);
  - (b) a description of the nature of the entity’s operations and its principal activities; and
  - (c) the name of the parent company and the ultimate parent company of the group (disclosed in Note 46 of the financial statements).
2. If the Company changes its name during the financial year, the change shall be disclosed. A suggested disclosure is as follows:

FRS 1(126)

FRS 1(46)(a)

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

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2. Significant accounting policies<sup>1,2,3</sup>

FRS 1(103)(a)

### Guidance Notes

#### Significant accounting policies

##### Disclosure of accounting policies

1. In deciding whether a particular accounting policy shall be disclosed, management considers whether disclosure will assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. **Accounting policies shall be disclosed for all material components. The accounting policies illustrated in this publication must be tailored if they are adopted by other reporting entities to suit the particular circumstances and needs of readers of those financial statements.**
2. **Disclosure of accounting policies is particularly useful to users when there are alternatives allowed in Standards and Interpretations.** Examples include whether proportionate consolidation or the equity method is applied to account for interests in joint ventures (FRS 31), measurement bases used for classes of property, plant and equipment (FRS 16) and whether borrowing costs on qualifying assets are capitalised or recognised immediately as an expense (FRS 23).
3. An accounting policy may also 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 can, 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, can be the determining factor.

FRS 1(110)

FRS 1(110)

FRS 1(112)

FRS 1(11)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”)<sup>1</sup>. The financial statements have been prepared under the historical cost convention<sup>2,3,4,5</sup>, except as disclosed in the accounting policies below.

FRS 1(14)  
SGX 1207(5)(d)  
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.

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### Guidance Notes

#### Basic of preparation

##### Compliance with FRS

1. Please refer to guidance notes 1 and 2 under Statement by Directors.

##### Going concern assumption

2. When preparing financial statements, management shall make an assessment of the entity’s ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.
3. An entity shall 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 entity or to cease trading, or has no realistic alternative but to do so.
4. When management is aware of material uncertainties related to events or conditions which may cast significant doubt upon the entity’s ability to continue as a going concern, those uncertainties shall be disclosed, even if management eventually concludes that it is appropriate to prepare the financial statements on a going concern basis. One disclosure example is “*These financial statements are prepared on a going concern basis because the holding company has undertaken to provide continuing financial support so that the Company is able to pay its debts as and when they fall due*”.
5. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered a going concern. One disclosure example is “*These financial statements are prepared on a realisation basis because management intends to liquidate the Company within the next 12 months from the balance sheet date*”.

FRS 1(23)

FRS 10(14)

FRS 1(23)

FRS 1(23)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.1 Basis of preparation (continued)

### *Interpretations and amendments to published standards effective in 2007*

On 1 January 2007, the Group adopted the new or amended 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 transitional provisions in the respective FRS and INT FRS.

The following are the new or amended FRS and INT FRS that are relevant to the Group<sup>1</sup>:

FRS 8(28)(a)

Amendments to FRS 1	Presentation of Financial Statements – Capital Disclosures
FRS 40	Investment Property
FRS 107	Financial Instruments: Disclosures
INT FRS 110	Interim Financial Reporting and Impairment

The adoption of the above FRS or INT FRS did not result in any substantial changes to the Group's accounting policies nor any significant impact on these financial statements, except for the adoption of FRS 40, of which the effects are disclosed in Note 3. FRS 107 and the complementary amended FRS 1 introduce new disclosures relating to financial instruments and capital respectively.

FRS 8(28)(b)

## Guidance Notes

### **Basis of preparation – Interpretations and amendments to published standards effective in 2007**

- The following are the new or amended Standards and Interpretations (issued up to 31 July 2007) that are applicable for annual periods commencing after 1 January 2006.

#### **Annual periods commencing on**

#### **Description**

1 March 2006	<b>INT FRS 107</b> Applying the Restatement Approach under FRS 29 Financial Reporting in Hyperinflationary Economies
1 May 2006	<b>INT FRS 108</b> Scope of FRS 102
1 June 2006	<b>INT FRS 109</b> Reassessment of Embedded Derivatives
1 November 2006	<b>INT FRS 110</b> Interim Financial Reporting and Impairment
1 January 2007	<b>FRS 40</b> Investment Property
1 January 2007 for listed entities (1 January 2008 for non-listed entities)	<b>FRS 107</b> Financial Instruments: Disclosures <b>Amendments to FRS 1</b> Presentation of Financial Statements – Capital Disclosures
1 March 2007	<b>INT FRS 111</b> Group and Treasury Share Transactions
1 January 2008	<b>INT FRS 112</b> Service Concession Arrangements
1 January 2009	<b>FRS 108</b> Operating Segments

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.2 Revenue recognition<sup>1,2</sup>

FRS 18(35)(a)

Sales 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. Sales is presented, net of value-added tax<sup>3</sup>, rebates and discounts, and after eliminating sales within the Group.

FRS 18(9)

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria for each of the Group's activities are met as follows:

FRS 18(14)(c-e)

### (a) Sale of goods - electronic component parts

Revenue from these sales is recognised when a Group entity has delivered the parts to locations specified by its customers, the customers have accepted the parts in accordance with the sales contract and the collectibility of the related receivable is reasonably assured.

FRS 18(14)(a,b)

Electronic component parts are sold to certain customers with volume discount and these customers also have the right to return faulty parts. Revenue from these sales is recorded based on the contracted price less the estimated volume discount and returns at the time of sale. Past experience and projection are used to estimate the anticipated volume of sales and returns.

FRS 18(9)

### (b) Sale of goods - furniture

The Group sells furniture through retail stores and wholesalers.

Revenue from retail stores is recognised when the Group delivers the furniture to its customers and it is probable that the furniture will not be returned. Customers are given a right to return the furniture within seven days of delivery. Accumulated experience is used to estimate and provide for such returns at the time of sale.

FRS 18(14)(a,b)

The Group does not operate any customer loyalty programme.

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Revenue from sales to wholesalers is recognised when the Group has delivered the furniture to the wholesalers.

FRS 18(14)(a,b)

### (c) Rendering of service - Logistics services

Revenue from logistics services is recognised when the services are rendered, using the percentage of completion method based on the actual service provided as a proportion of the total services to be performed.

FRS 18(20)

FRS 18(35)(a)

### (d) Construction of specialised equipment

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

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.2 Revenue recognition (continued)

### (e) Interest income<sup>4,6</sup>

Interest income, including income arising from finance leases and other financial instruments, is recognised using the effective interest method.

FRS 18(30)(a)

### (f) Dividend income<sup>5,6</sup>

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

FRS 18(30)(c)

### (g) Rental income

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

FRS 17(50)  
INT FRS 5(4)

## Guidance Notes

### Revenue recognition

1. Revenue recognition policy for each principal activity is required to be disclosed and the disclosure should be tailored to the entity's specific circumstances to provide the readers with sufficient understanding of the policies.
2. Please refer to Appendix 1 Example 2 for an illustrative disclosure example on a contract with multiple-element arrangements.
3. If the Group operates predominantly in Singapore, the term "value-added tax" may be replaced by "goods and services tax".
4. When unpaid interest has accrued on an investment prior to it being acquired by the reporting entity, the subsequent receipt of interest is treated as a recovery of part of the cost of equity securities.
5. When dividends on equity securities are declared from pre-acquisition profits, those dividends are deducted from the cost of the securities. Where it is difficult to make such an allocation except on an arbitrary basis, dividends are recognised as revenue unless they clearly represent a recovery of part of the cost of the equity securities.
6. Where interest and dividends representing recovery of the cost of investment are material, the following disclosure can be considered:

*"Where the Group receives [dividend, distribution and interest] from its investments, which clearly represent recovery of part of the cost of the investments, the [dividend, distribution and interest received] are accounted for as a reduction of the carrying amounts of those investments."*

FRS 18(13)

FRS 18(32)

FRS 18(32)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.3 Group accounting<sup>1</sup>

### (a) Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies, generally accompanied by a shareholding giving rise to the majority 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)  
INT FRS 12(8)

FRS 27(14)

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the dates of exchange<sup>2</sup>, 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<sup>2</sup>, irrespective of the extent of 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)

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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<sup>3</sup>, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are 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.

FRS 27(24)

FRS 27(28,29)

Minority interests are that part of net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the Group. They are measured at the minorities' share of 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 minorities' share of losses in a subsidiary exceeds its interests in the equity of that subsidiary. In such cases, the excess and further losses applicable to the minorities are attributed to the equity holders of the Company, unless the minorities 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 minorities' share of losses previously absorbed by the equity holders of the Company are fully recovered.

FRS 27(4)

FRS 27(22)(c)

FRS 27(35)

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.

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# Notes to the Financial Statements

for the financial year ended 31 December 2007

## Guidance Notes

### Group accounting – (a) Subsidiaries

1. When a parent is exempted under paragraph 10 of FRS 27 from preparing consolidated financial statements and elects to use the exemption and prepare separate financial statements, the following disclosure can be considered:

FRS 27(41)(a)

*“These financial statements are the 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 registered office of PwC Corporate Limited is as follows: 320 Pier Street, #17-00 Singapore 049900.”*

The exempted parent that elects to prepare separate financial statement shall also disclose 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 a description of the method used to account for these investments.

FRS 27(41)(b,c)

### Dates of exchange and date of acquisition

2. When business combination involves more than one exchange transaction, for example when it is achieved in stages by successive share purchases, the date of exchange is the date that each individual investment is recognised in the financial statements of the acquirer. This will be different to the date of acquisition, which is the date on which the acquirer obtains control of the acquiree.

FRS 103 AppA

### Reporting dates of parent and its subsidiaries

3. This publication illustrates the situation where the financial statements of the parent and its subsidiaries used to prepare the consolidated financial statements are prepared as of the same reporting date. Where it is impracticable to do so, the parent may use financial statements of subsidiary as of a different reporting date provided the difference in periods does not exceed three months, adjustments are made for the effects of significant transactions or events occurring during that period, and the length of reporting periods and any difference in the reporting dates are the same from period to period. Where this occurs, the reporting date of the financial statements of the subsidiary shall be disclosed, together with the reason for using a different reporting date or period.

FRS 27(26,27)

FRS 27(40)(e)

A similar requirement applies to the financial statements of associated companies and joint ventures used for the purpose of equity accounting or proportionate consolidation, as appropriate.

FRS 28(24-25,37(e))



# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.3 Group accounting (continued)

### (b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group<sup>1</sup>. Disposals to minority interests result in gains and losses for the Group that are recognised in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the Group's incremental share of the carrying value of identifiable net assets of the subsidiary.

#### Guidance Notes

##### Group accounting – (b) Transactions with minority interests

1. A reporting group may also treat transactions with minority interests as transactions with equity holders, in which gain or loss is recognised directly in equity rather than in the income statement. This alternative treatment is proposed in the Proposed Amendments to FRS 27. When adopted, the following disclosure can be considered:

*“Changes in the Group's interest in a subsidiary that do not result in a loss of control is accounted for by adjusting the carrying amount of minority interests to reflect changes 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.*

*Changes in the Group's interest in a subsidiary that result in a loss of control is accounted for by recognising the resulting gain or loss in 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 of the former subsidiary's net assets as recorded in the consolidated financial statements immediately before control is lost, including the parent's share of gains or losses related to that former subsidiary previously recognised in equity.*

*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.”*

ED FRS 27(30A)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.3 Group accounting (continued)

### (c) Associated companies

Associated companies are entities over which the Group has significant influence, but not control, generally accompanied by a shareholding giving rise to 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 includes goodwill (net of any accumulated impairment losses) 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)

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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 non-current 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.

FRS 28(22)

FRS 28(26)

FRS 28(27)

Please refer to the paragraph “Investments 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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### Guidance Notes

#### Group accounting – (c) Associated Companies

#### Reporting dates of investor and its associated companies

1. Please refer to guidance note 3 under Group Accounting – Subsidiaries.

FRS 28(24,25,37(e))

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.3 Group accounting (continued)

### (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>1</sup>.

FRS 31(3)

FRS 31(57)

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(30,34)

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.

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

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### Guidance Notes

#### Group accounting – (d) Joint ventures

##### Method of accounting

1. Jointly-controlled entities may also be consistently accounted for using the equity method and when so, the policy described in Note 2.3(c) can be considered.

FRS 31(38)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.4 Property, plant and equipment

### (a) Measurement<sup>1</sup>

#### (i) Land and buildings

Land and buildings are initially recognised at cost. Freehold land is subsequently carried at the revalued amount less accumulated impairment losses. Buildings and leasehold land are subsequently carried at the revalued amounts less accumulated depreciation and accumulated impairment losses.

FRS 16(15)  
FRS 16(31)

Land and buildings are revalued by independent professional valuers on a triennial basis and whenever their carrying amounts are likely to differ materially from their revalued amounts. 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(32-34)

FRS 16(35)(b)

Increases in carrying amounts arising from revaluation including currency translation differences are recognised in an asset revaluation reserve, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognised in the income statement. Decreases in carrying amounts that offset previous increases of the same asset are recognised against the asset revaluation reserve. All other decreases in carrying amounts are recognised in the income statement.

FRS 16(39)  
FRS 21(30)

FRS 16(40)

#### (ii) Properties under development

Properties under development are properties being constructed or developed for future rental<sup>2,3</sup>. They are carried at cost less accumulated impairment losses until construction or development is completed, at which time they are transferred and accounted for as investment properties.

FRS 40(9)(d)  
FRS 16(30)

#### (iii) 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)

#### (iv) Components of costs

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost<sup>4</sup> 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, including borrowing costs incurred for the property under development. Cost also includes any gains or losses on qualifying cash flow hedges of property, plant and equipment that are transferred from the hedging reserve.

FRS 16(16)(a,b)

FRS 23(10,11)

FRS 39(98(b),99)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## Guidance Notes

### Property, plant and equipment ("PPE") – (a) Measurement

#### Method of accounting

1. An item of PPE shall be initially measured at cost, but can be subsequently measured using either the cost model (as illustrated in Note 2.4(a)(iii)) or the revaluation model (as illustrated in Note 2.4(a)(i)).

FRS 16(29)

The elected policy shall be applied consistently to an entire class of PPE. A class of PPE is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes include land, land and buildings, machinery, ships, aircraft, motor vehicles, furniture and fixtures and office equipment.

FRS 16(37)

#### Property under development for future rental

2. Property under construction or development for future use as investment property is outside the scope of FRS 40. FRS 16 applies to such property until construction or development is complete. FRS 40 however applies to an existing investment property that is being re-developed for continued use as investment property.

FRS 40(9)(d)

#### Property under development for future sale

3. Property under development for sale that is sold prior to completion shall be accounted for either using the percentage of completion or completed contract method. For an illustrative disclosure using the percentage of completion method, please refer to Appendix 1 Example 7.

RAP 11(9)

#### Provision for dismantlement, removal or restoration

4. The projected cost of dismantlement, removal or restoration is recognised as part of the cost of PPE if such obligation is incurred either when the item is acquired or as a consequence of using the asset during a particular period for purposes other than to produce inventories during that period. For an illustration of the accounting policy and other disclosures, please refer to Appendix 1 Example 3.

FRS 16(16)(c)

#### Computer software license and development costs

5. Computer software license and development costs shall be recognised as intangible assets when they are not an integral part to the related hardware. Computer software that is an integral part to the related hardware shall be included in PPE under FRS 16.

FRS 38(4)

#### Spare parts and servicing equipment

6. Minor spare parts and servicing equipment are typically carried as inventory and recognised in the income statement as consumed. Major spare parts and stand-by equipment are carried as PPE when an entity expects to use them during more than one period or when they can be used only in connection with an item of PPE.

FRS 16(8)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.4 Property, plant and equipment (continued)

### (b) Depreciation

Freehold land and property under development are 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<sup>1</sup> as follows:

FRS 16(73)(b)

FRS 16(73)(c)

	<u>Useful lives</u>
Leasehold land	60 – 99 years
Buildings	25 – 50 years
Motor vehicles	4 years
Plant and equipment	5 – 15 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in the income statement when the changes arise.

FRS 16(51,61)

### (c) Subsequent expenditure

Subsequent expenditure<sup>2</sup> 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. All other repair and maintenance expense is recognised in the income statement when incurred.

FRS 16(7)

FRS 16(12)

### (d) Disposal

FRS 16(67)

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in 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)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## Guidance Notes

### Property, plant and equipment ("PPE") – (b) Depreciation

#### Component approach to depreciation

1. An entity allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates separately each significant part if those parts have different useful lives.

FRS 16(43-44)

#### Approach to replacements

2. In addition, an item of PPE may require replacement at regular intervals. The entity capitalises the cost of the replacements when (i) it is probable that future economic benefits associated with the item will flow to the entity; and (ii) the cost of the item can be reliably measured. The carrying amount of the replaced parts is derecognised.

FRS 16(13,7)

If the amount is material, a suggested disclosure is as follows:

*"The [specific class of plant and equipment] are subject to overhauls at regular intervals. The inherent components of the initial overhaul are determined based on the estimated costs of the next overhaul and are separately depreciated over a period of [years] in order to reflect the estimated intervals between two overhauls. The costs of the overhauls subsequently incurred are capitalised as additions and the carrying amounts of the replaced components are written off to the income statement."*

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.5 Intangible assets

### (a) Goodwill on acquisitions

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

FRS 103(51)

Goodwill on subsidiaries and joint ventures<sup>1</sup> is recognised separately as intangible assets and carried at cost less accumulated impairment losses.

FRS 103(54)

Goodwill on associated companies is included in the carrying amount of the investments.

FRS 28(23)(a)

Gains and losses on the disposal of subsidiaries, joint ventures and associated companies include the carrying amount of goodwill relating to the entity sold, except for goodwill arising from acquisitions prior to 1 January 2001. Such goodwill was adjusted against retained earnings in the year of acquisition and not recognised in the income statement on disposal.<sup>2</sup>

### (b) Acquired trademark and licenses

Trademarks and licenses acquired are initially recognised at cost and 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 15 to 20 years, which is the shorter of their estimated useful lives and periods of contractual rights.

FRS 38(74)

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

### (c) Acquired computer software licenses<sup>4</sup>

Acquired computer software licenses are initially capitalised at cost which includes the purchase price (net of any discounts and rebates) and other directly attributable cost of preparing the asset for its intended use. Direct expenditure including employee costs, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is added to the original cost of the software. Costs associated with maintaining the computer software are recognised as an expense when incurred.

FRS 38(24)

FRS 38(27)

Computer software licenses 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(118)(a,b)

FRS 38(97)

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 are recognised in the income statement when the changes arise.

FRS 38(104)



# Notes to the Financial Statements

for the financial year ended 31 December 2007

## Guidance Notes

### Intangible assets

#### Goodwill on joint ventures

1. This publication illustrates the disclosure where joint ventures are accounted for using the proportionate consolidation method and thus, goodwill on joint ventures is recognised separately like the treatment of goodwill on subsidiaries. If joint ventures are accounted for using equity method of accounting, goodwill on joint ventures shall be included in the carrying amount of the investments like the treatment of goodwill on associated companies.

#### Goodwill previously charged to retained earnings

2. Goodwill on subsidiaries, joint ventures or associated companies acquired prior to annual periods commencing 1 October 2000 was allowed to be adjusted against shareholders' equity. If this option is taken, goodwill previously recognised against retained earnings shall not be recognised in the income statement on disposal of these entities.

FRS 103(80)

#### Negative goodwill

3. The following is an illustrative disclosure where negative goodwill arises on acquisition:

*"Where the cost of an acquisition is less than the fair value of the Group's share of the net identifiable assets and contingent liabilities of the subsidiary acquired, the difference ("negative goodwill") is recognised directly in the income statement, unless it arose from acquisitions prior to [1 January 2001]. Such negative goodwill was adjusted to retained earnings in the year of acquisition and is not recognised in the income statement on disposal."*

FRS 103(56)

Similar to the goodwill arising from acquisition prior to annual periods commencing 1 October 2000 (guidance note 1 above), such negative goodwill was allowed to be adjusted to shareholders' equity directly.

#### Development of software

4. If the entity develops its own computer software and capitalises these costs in accordance with FRS 38, the following disclosure is suggested:

*"Costs directly attributable to the development of computer software are capitalised as intangible assets only when technical feasibility of the project is demonstrated, the Group has an intention and ability to complete and use the software and the costs can be measured reliably. Such costs include purchases of materials and services and payroll-related costs of employees directly involved in the project."*

FRS 38(57)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.6 Borrowing costs

FRS 23(9,29(a))

Borrowing costs are recognised in the income statement using the effective interest method except for those costs that are directly attributable to borrowings acquired specifically for the construction or development of properties. The actual borrowing costs incurred during the period up to the issuance of the temporary occupation permit less any investment income on temporary investments of these borrowings, are capitalised in the cost of the property under development.

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

FRS 23(20,25)

FRS 23(15)

## 2.7 Contract to construct specialised equipment (“Construction contracts”)<sup>1</sup>

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 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(22)

FRS 11(32)

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 recognised as 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<sup>2</sup> 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<sup>3</sup>, 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”. Advances<sup>3</sup> received are included within “trade and other payables”.

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## Guidance Notes

### Construction contracts

#### Scope of FRS 11

1. A significant feature of a construction contract is that the date of commencement and the date of completion fall into different accounting periods. A revenue-generating contract must meet the definition of a construction contract to be in the scope of FRS 11. Otherwise, FRS 18 applies. FRS 18 contains less stringent rules in the segmenting of contracts, compared to FRS 11.

#### Measuring stage of completion

2. The proportion of contract costs incurred to date over the total estimated contract costs may not be a reliable measure of the stage of completion for all construction contracts. Other methods such as a survey of work performed or the completion of a physical proportion of contract work may be more appropriate.
3. Progress billings are amounts billed for the work performed on a contract whether or not they have been paid by the customer. Advances are amounts received by the contractor before the related work is performed. Both often do not reflect the work performed and accordingly, are not used to determine the stage of completion.

FRS 11(30)

FRS 11(41)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.8 Investment properties

Investment properties include those portions<sup>1</sup> of office buildings that are held for long-term rental yields and/or for capital appreciation and land under operating leases<sup>2</sup> that are held for long-term capital appreciation or for a currently indeterminate use.

FRS 40(6)

FRS 40(10)

FRS 40(75)(b)  
FRS 40(8)(b)

Investment properties are initially recognised at cost and subsequently carried at fair value<sup>3</sup>, determined annually by independent professional valuers on the highest-and-best-use<sup>4</sup> basis. Changes in fair values are recognised in the income statement.

FRS 40(20,30)

FRS 40(75)(e)

FRS 40(35)

Investment properties are subject to renovations or improvements at regular intervals. The cost of major renovations and improvements is capitalised as addition and the carrying amounts of the replaced components are written off to the income statement. The cost of maintenance, repairs and minor improvement is charged to the income statement when incurred.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in the income statement.

FRS 40(66)

### Guidance Notes

#### Investment properties

1. When judgement is required to determine the portions of investment property, owner-occupied property and property held for sale in the ordinary course of business, the entity shall disclose the criteria used to distinguish them and the judgements involved.
2. A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property if and only if: (a) the property will otherwise meet the definition of an investment property; and (b) the lessee uses the fair value model to account for its investment properties. Once this classification is selected for one such property, all properties classified as investment properties shall be accounted for using the fair value model.
3. A reporting entity can choose to apply the cost model, provided it does not classify any land held under operating leases as investment property. The following accounting policy may be adopted:

FRS 40(75)(c)  
FRS 1(113)

FRS 40(6)

FRS 40(30,34)

*"Investment properties comprise significant portions of freehold office buildings that are held for long-term rental yields and/or for capital appreciation.*

*Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using [a straight-line] method to allocate the depreciable amounts over the estimated useful lives of [ ] years. The residual values, useful lives and depreciation method of investment properties are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are included in the income statement when the changes arise....."*

When the cost model is applied, the fair value of investment property shall be disclosed at each reporting date. In the exceptional cases when an entity cannot determine the fair value of investment property reliably, it shall disclose:

FRS 40(79)(e)

- (a) a description of the investment property;
- (b) an explanation of why fair value cannot be determined reliably; and
- (c) if possible, the range of estimates within which fair value is highly likely to lie.

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## Guidance Notes

### Investment properties (continued)

4. The Standards do not provide specific guidance to determine fair value. However, IAS 40.BC 53 highlights that the fair value concept under FRS is similar to that under the International Valuation Standards (“IVS”).

Under IVS 1, the market value of an asset is estimated on the basis of its highest-and-best-use, which means that any possible use of the asset, as determined from market evidence, shall be considered in the fair value determination. The highest-and-best-use value approach, as suggested by IVS 1, is the most appropriate basis to determine fair value. This approach is further confirmed by the 1998 revision on IAS 16, which removed the “existing use” basis for valuing PPE. Nevertheless, it is possible for the highest and best use of an investment property to be the same as its existing use.

5. There are specific recognition and/or measurement requirements dealing with transfers of properties from classifications as property, plant and equipment or inventories to classification as investment properties and vice versa. Please refer to paragraphs 57-65 of FRS 40 for details.

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.9 Investments in subsidiaries, joint ventures and associated companies

Investments in subsidiaries, joint ventures and associated companies are carried at cost<sup>1,2</sup> less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, joint ventures and associated companies, the difference between disposal proceeds and the carrying amounts of the investments are recognised in the income statement.

FRS 27(37)  
FRS 27(42)(c)

### Guidance Notes

#### Investments in subsidiaries, joint ventures and associated companies

1. When separate financial statements are prepared, investments in subsidiaries, jointly controlled entities and associates that are not classified as held for sale, shall be accounted for either: (a) at cost; or (b) in accordance with FRS 39.
2. Investments in jointly controlled entities and associated companies that are accounted for in accordance with FRS 39 in the consolidated financial statements shall be accounted for in the same way in the investor's separate financial statements.

FRS 27(37)

FRS 27(39)

An example is investments in associated companies held by venture capital organisations or mutual funds, unit trusts and similar entities including investment-linked insurance funds. Such associated companies, instead of being equity-accounted for, may be accounted for at fair value through profit and loss in the consolidated financial statements. Accordingly, when the choice has been made to account for them at fair value through profit and loss in the consolidated financial statements, they shall also be accounted for at fair value through profit and loss in the separate financial statements of the investor.

FRS 28(1)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.10 Impairment of non-financial assets

### (a) Goodwill

Goodwill is tested for impairment annually and whenever there is indication that the goodwill may be impaired. Goodwill included in the carrying amount of an investment in associated company is tested for impairment as part of the investment, rather than separately.

FRS 36(9,10(b))  
FRS 28(33)

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)

FRS 36(6)

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<sup>1</sup> in a subsequent period.

FRS 36(60)  
FRS 36(124)

### Guidance Notes

#### Goodwill

1. An entity shall not reverse an impairment loss recognised in a previous interim period (for example, in the quarterly financial announcement) in the annual period end financial statements in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

INT FRS 110(8)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.10 Impairment of non-financial assets (continued)

### (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 tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

FRS 36(9)  
FRS 28(31)

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) 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, the 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 difference between the carrying amount and recoverable amount is recognised as an impairment loss in the income statement, unless the asset is carried at revalued amount<sup>1</sup>, 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)

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 any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

FRS 36(114)

FRS 36(117)  
INT FRS 110(8)

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<sup>1</sup>, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset<sup>1</sup> was previously recognised in the income statement, a reversal of that impairment is also recognised in the income statement.

FRS 36(119)

## Guidance Notes

### Impairment of non-financial assets

1. In this illustration, certain classes of non-financial assets are carried at their revalued amounts. The disclosures related to revalued amounts shall be removed if the Group applies only the cost model for all non-financial assets.



# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.11 Financial assets

FRS 107(21)

### (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. 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

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 it is 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 performances are evaluated on a fair value basis, in accordance with a documented Group investment strategy. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are presented 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 107 AppB5(a)

FRS 1(57,59)

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those maturing later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as “trade and other receivables” and “cash and cash equivalents” on the balance sheet.

FRS 39(9)

FRS 1(57,59)

#### (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. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. They are presented as non-current assets, except for those maturing within 12 months after the balance sheet date which are presented as current assets.

FRS 39(9)

FRS 1(57,59)

#### (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 presented as non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

FRS 107 AppB5(b)  
FRS 39(9)

FRS 1(57, 59)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.11 Financial assets (continued)

### (b) Recognition and derecognition

Regular way<sup>1</sup> purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

FRS 107 AppB5(c)  
FRS 39(38)

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. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in the income statement. Any amount in the fair value reserve relating to that asset is transferred to the income statement.

FRS 39(17,20)

FRS 39(26)

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 immediately in the income statement.

FRS 39(43)

## Guidance Notes

### Financial assets – (b) Recognition and derecognition

1. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. A regular way purchase or sale gives rise to a fixed price commitment between trade date and settlement date that meets the definition of a derivative, but it is not recognised as such. Rather, FRS 39 allows these transactions to be recognised and derecognised using trade date accounting or settlement date accounting. If such transactions are not material, the disclosure can be omitted.

FRS 39(9)

FRS 39(38)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.11 Financial assets (continued)

### (d) Subsequent measurement

Financial assets, both 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 subsequently carried at amortised cost using the effective interest method.

FRS 39(46)

Changes in the fair values of financial assets, at fair value through profit or loss including the effects of currency translation, interest and dividend<sup>1</sup>, are recognised in the income statement when the changes arise.

FRS 39(55)(a)  
FRS 107 AppB5(e)  
FRS 21(30)

Interest and dividend income<sup>1</sup> on financial assets, available-for-sale are recognised separately in the income statement. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in the income statement and the other changes are recognised in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

FRS 39(55)(b)  
FRS 107 AppB5(e)  
FRS 39 AG83

FRS 21(30)

## Guidance Notes

### Financial assets – (d) Subsequent measurement

#### Inclusion of interest and dividend income in the changes of fair value

1. For financial assets at fair value through profit or loss, an entity is allowed to:
  - (a) recognise interest income, interest expense and dividend income as part of net gains or net losses on these financial instruments; or
  - (b) recognise interest income, interest expense and dividend income separately

The elected policy shall be consistently applied and disclosed. Method (a) has been illustrated in this publication.

This policy choice is however not available to financial assets, available for sale and therefore, the related dividend and interest income shall be accounted for in accordance with FRS 18, i.e. not part of the net gains or losses on fair values.

FRS 39(55)(a)  
FRS 107 AppB5(e)

FRS 39(55)(b)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.11 Financial assets (continued)

### (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 and recognises an allowance for impairment when such evidence exists.

FRS 39(58)

#### (i) Loans and receivables / Financial assets, held to maturity

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

FRS 39(59)  
FRS 39(60)

The carrying amount of these assets is reduced through the use of an impairment allowance account<sup>1</sup> which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in the income statement.

FRS 39(63)

The allowance for impairment loss account is reduced through the income statement in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. 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)

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

Significant or prolonged declines in the fair value of the security below its cost and the disappearance of an active trading market for the security are objective evidence that the security is impaired.

FRS 39(61)

The cumulative loss that was recognised in the fair value reserve is transferred to 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 previously recognised in the income statement on debt securities. The impairment losses recognised in the income statement on equity securities are not reversed through the income statement.

FRS 39(67)

FRS 39(68)

FRS 39(70)

FRS 39(69)

## Guidance Notes

### Financial assets – (e) Impairment

- FRS 39 allows an impairment loss on financial assets carried at amortised cost to be recognised through the use of an allowance account or by reducing the carrying amount of the financial asset directly. This publication illustrates the former.

FRS 39(63)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.12 Financial guarantees<sup>1,2</sup>

The Company has issued corporate guarantees to banks for borrowings of its subsidiaries. These guarantees are financial guarantees 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 guarantees are initially recognised at their fair values plus transaction costs in the Company's balance sheet.

FRS 39(43)

Financial guarantees are subsequently amortised to the income statement over the period of the subsidiaries' borrowings, unless it is probable that the Company will reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantees shall be carried at the expected amount payable to the bank in the Company's balance sheet.

FRS 39(47)(c)

Intragroup transactions are eliminated on consolidation.<sup>3</sup>

### Guidance Notes

#### Financial guarantees

##### Definition of financial guarantee

1. A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Where the financial guarantee is given with respect to a banking facility, that facility must be drawn down before the definition of financial guarantee is met as a debt (or debtor) only comes into existence upon draw-down.

FRS 39(9)

##### Financial guarantees versus insurance contracts

2. Financial guarantees shall be accounted for under FRS 39, unless the issuer has previously asserted explicitly that it regards certain financial guarantees as insurance contracts and has accounted for them as insurance contracts, in which case the issuer may then elect to apply either FRS 39 or FRS 104 for these contracts. The issuer shall make the election contract by contract, but once the election is made, it is irrevocable.

FRS 104(4)(d)  
FRS 39(2)(e)

##### Financial guarantees for associated companies and joint ventures

3. Where the entity has issued financial guarantees to banks for bank borrowings of its associated companies and joint ventures, these financial guarantees shall be recognised in both the entity's separate and consolidated financial statements as these transactions will not be fully eliminated on equity accounting or proportionate consolidation. The relevant disclosures as required by FRS 24 shall also be made.

FRS 24(17)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.13 Borrowings

FRS 107(21)

Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

FRS 1(60,63)

### (a) Borrowings

Borrowings are initially recognised at fair value (net of transaction costs) and subsequently carried 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 39(43)  
FRS 39(47)

### (b) Redeemable preference shares<sup>1</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 expenses.

FRS 32(18)(a)

### (c) Convertible bonds<sup>2</sup>

When convertible bonds are issued, the total proceeds are allocated to the liability component and the equity component, which are separately presented on the balance sheet.

FRS 32(28)

The liability component is recognised initially at its fair value, determined using a market interest rate for equivalent non-convertible bonds. It is subsequently carried at amortised cost using the effective interest method until the liability is extinguished on conversion or redemption of the bonds.

FRS 107(27)(a)  
FRS 32 AG31(a)

The difference between the total proceeds and the liability component is allocated to the conversion option (equity component), which is presented in equity net of deferred tax effect. The carrying amount of the conversion option is not adjusted in subsequent periods. When the conversion option is exercised, its carrying amount will be transferred to share capital account. When the conversion option lapses, its carrying amount will be transferred to retained earnings.

FRS 32 AG32

## Guidance Notes

### Borrowings

1. Preference shares that are redeemable on a specific date or at the option of the shareholder, or carry non-discretionary dividend obligations, shall be classified as liabilities. As for non-redeemable preference shares, their terms and conditions shall be critically evaluated using the criteria in FRS 32 to determine whether they shall be classified as liability or equity.
2. A convertible bond that can be settled by delivering a fixed number of the issuer's own equity instruments for a fixed amount of foreign currency liability is a liability with an embedded derivative. Please refer to the illustrative disclosure in Appendix 1 Example 6 of this publication.

FRS 32(15-16)  
FRS 32(18)(a)

FRS 32(15-16,28)

FRS 32(28,15-16)  
FRS 32 AG27(d)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.14 Trade and other payables

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

FRS 39(43,47)

## 2.15 Derivative financial instruments and hedging activities

FRS 107(21)

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 each hedge as either: (a) fair value hedge; (b) cash flow hedge; or (c) net investment hedge.

FRS 39(43,47)

FRS 39(71)

FRS 39(86)

The Group documents at the inception of the transaction the relationship between the 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 39(88)

The carrying amount of a derivative designated as a hedge is presented as a non-current asset or liability if the remaining expected life of the hedged item is more than 12 months, and as a current asset or liability if the remaining expected life of the hedged item is less than 12 months. The fair value of a trading derivative is presented as a current asset or liability.

FRS 1(57,60)

### (a) Fair value hedge

FRS 107(22)

The Group has entered into currency forwards that are fair value hedges for currency risk arising from its firm commitments for purchases and sales denominated in foreign currencies ("hedged item"). The fair value changes on the hedged item resulting from currency risk are recognised in the income statement. The fair value changes on the effective portion of currency forwards designated as fair value hedges are recognised in the income statement within the same line item as the fair value changes from the hedged item. The fair value changes on the ineffective portion of currency forwards are recognised separately in the income statement.

FRS 39(88,93)

FRS 39(89)(b)

FRS 39(89)(a)

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method was used is amortised to the income statement over the period to maturity.

FRS 39(91)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.15 Derivative financial instruments and hedging activities (continued)

### (b) Cash flow hedge

FRS 107(22)

#### (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 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 borrowings at floating rates and swap them into fixed rates.

The fair value changes on the effective portion of interest rate swaps designated as cash flow hedges are recognised in the hedging reserve and transferred to the income statement when the interest expense on the borrowings are recognised in the income statement. The fair value changes on the ineffective portion of interest rate swaps are recognised immediately in the income statement.

FRS 39(95)(a)

FRS 39(95)(b)

#### (ii) Currency forwards

The Group has entered into currency forwards that qualify as cash flow hedges against highly probable forecasted transactions in foreign currencies. The fair value changes on the effective portion of the currency forwards designated as cash flow hedges are recognised in the hedging reserve and transferred to either the cost of a hedged non-monetary asset upon acquisition or the income statement when the hedged forecast transactions are recognised.

FRS 39 (95(a),97-100)

The fair value changes on the ineffective portion 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.

FRS 39(95(b),101)

### (c) Net investment hedge

FRS 107(22)

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. The currency translation differences on the borrowings relating to the effective portion of the hedge are recognised in the currency translation reserve in the consolidated financial statements and transferred to the income statement as part of the gain or loss on disposal of the foreign operation. The currency translation differences relating to the ineffective portion of the hedge are recognised immediately in the income statement.

FRS 39(102)

### (d) Derivatives that are not designated or do not qualify for hedge accounting

FRS 107(21)

Fair value changes on these derivatives are recognised in the income statement when the changes arise.

FRS 39(55)



# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.16 Fair value estimation of financial assets and liabilities

FRS 107(27)  
FRS 39 AG69

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 are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

FRS 39(48A)  
FRS 39 AG71-73

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 discounted cash flow analyses, are also used to determine the fair values of the financial instruments.

FRS 39(48A)  
FRS 39 AG74-82

The fair values of currency forwards are determined using actively quoted forward exchange rates. 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 107(27)(a,b)

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

FRS 107(25,29)

## 2.17 Leases

### (a) When the Group is the lessee:<sup>1,3</sup>

The Group leases motor vehicles and certain plant and machinery under finance leases and land, factories and warehouses under operating leases from non-related parties.

#### (i) Lessee - Finance leases

Leases where the Group assumes substantially all risks and rewards incidental to ownership of the leased assets 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 plant and equipment and borrowings respectively, at the inception of the leases based on the lower of the fair value of the leased assets and the present value of the minimum lease payments.

FRS 17(20)

Each lease payment is apportioned between the finance expense and the reduction of the outstanding lease liability. The finance expense is recognised in the income statement on a basis that reflects a constant periodic rate of interest on the finance lease liability.

FRS 17(25)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.17 Leases (continued)

### (ii) Lessee - Operating leases

Land under operating leases are accounted for as investment properties. Please refer to the accounting policy for "Investment properties".

Leases of factories and warehouses where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in the income statement on a straight-line basis over the period of the lease.

FRS 17(4)

FRS 17(33)  
INT FRS 15(5)

Contingent rents<sup>2</sup> are recognised as an expense in the income statement when incurred.

### (b) When the Group is the lessor:<sup>3</sup>

The Group leases equipment under finance leases and investment properties under operating leases to non-related parties.

### (i) Lessor - Finance leases

Leases where the Group transferred substantially all risks and rewards incidental to ownership of the leased assets 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)

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)

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to finance lease receivables and recognised as an expense in the income statement over the lease term on the same basis as the lease income.

FRS 17(38)

### (ii) Lessor - Operating leases

Leases of investment properties where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases. Rental income from operating leases (net of any incentives given to the lessees) is recognised in the income statement on a straight-line basis over the lease term.

FRS 17(4)

FRS 17(50)

INT FRS 15(4)

Initial direct costs incurred by the Group in negotiating and arranging operating leases are added to the carrying amount of the leased assets 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<sup>2</sup> are recognised as income in the income statement when earned.

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## Guidance Notes

### Leases

#### Initial direct costs – lessees

1. Initial direct costs are the incremental costs directly attributable to negotiating and arranging a lease excluding such costs incurred by manufacturers or dealer lessors. Where initial direct costs are also incurred by the reporting entity as a lessee, the following disclosure is suggested:

FRS 17(4)

#### Lessee – Finance leases

*“Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in the income statement over the lease term on the same basis as the lease expense.”*

FRS 17(24)

#### Lessee – Operating leases

FRS 17 is silent on the accounting of initial direct costs by lessees in operating leases. Either of the following accounting policies can be adopted:

- (i) *“Initial direct costs incurred by the Group in negotiating and arranging operating leases are capitalised as prepayments and recognised in the income statement over the lease term on a straight-line basis.”*

Or

- (ii) *“Initial direct costs incurred by the Group in negotiating and arranging operating leases are recognised in the income statement when incurred.”*

#### Contingent rents

2. Contingent rents recognised as an expense or income, if material, shall be disclosed for each class of leases (i.e. operating and financing), irrespective of whether the reporting entity is a lessee or lessor. The basis upon which the contingent rent payable was determined are required to be additionally disclosed when the reporting entity is a lessee.

FRS 17(31)(c,e)  
FRS 17(35)(c,d)  
FRS 17(47)(e)  
FRS 17(56)(b)

#### Penalties for early termination

3. Where such penalties are material, the following disclosure is suggested:

*“When a lease is terminated before the lease period expires, any payment made (or received) by the Group as penalty is recognised as an expense (or income) when termination takes place.”*

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.18 Research costs

Research costs are recognised as an expense when incurred.

FRS 38(54)

## 2.19 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. Cost also includes any gains or losses on qualifying cash flow hedges of foreign currency purchases of inventories that are transferred from the hedging reserve. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

FRS 2(9)

FRS 2(36)(a)

FRS 2(10)

FRS 23(6,7)

FRS 39(98(b),99)

FRS 2(6)

### Guidance Notes

#### Inventories

- Where materials and supplies to be consumed in the rendering of services are material, the following disclosure is suggested:

*"Inventories comprise materials and supplies to be consumed in the rendering of [ ] services.....  
Net realisable value is the estimated selling price of [ ] services less the applicable costs of conversion to complete the services and variable selling expenses."*

FRS 2(19)

## 2.20 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

FRS 12(46)

Deferred income tax is recognised for all 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 arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

FRS 12(15)

A 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)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.20 Income taxes (continued)

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

FRS 12(24,34,44)

Deferred income tax is measured:

- (i) at 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 substantively enacted by the balance sheet date; and
- (ii) based on the tax consequence that will 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 taxes are recognised as income or expense in the income statement, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

FRS 12(58)

FRS 12(61)

FRS 12(66)

## 2.21 Provisions

Provisions for 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 historical experience of the level of repairs and replacements.

FRS 37 AppC  
Example 1

Other 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 finance expense.

FRS 37(45,47)

Changes in the estimated timing or amount of the expenditure or discount rate are recognised in the income statement when the changes arise.

FRS 37(59)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.22 Employee compensation<sup>1</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, unless they can be capitalised as an asset.

FRS 19(7)

FRS 19(44)(b)

### (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 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 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(2)(a)

FRS 102(7,8)

FRS 102(16)

FRS 102(19)

FRS 102(20)

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

### (c) Termination benefits<sup>2,3</sup>

Termination benefits are those benefits which 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)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## Guidance Notes

### Employee compensation

#### Defined benefit plan

1. Defined benefit pension or medical obligation is mandatory in some countries. Where the Group has a material defined benefit pension plan and/or post-employment medical plan, a suggested disclosure included in Appendix 1 Example 4 can be made.

#### Termination benefits versus Post-employment benefits

2. Some termination benefits are payable regardless of the reason for the employee's departure. Although these benefits are described in some countries as termination indemnities or termination gratuities, they can be post-employment benefits, rather than termination benefits.

FRS 19(136)

However, an entity may provide a lower amount of benefit for voluntary termination at the request of the employee compared to that for involuntary termination at the request of the entity in such plans. When this occurs, the additional benefit payable on involuntary termination is a termination benefit.

#### Post-employment benefits versus other long term benefits

3. In circumstances where employees are entitled to one month of their final pay for every year of completed service and these payments are made in full at the point of retirement, these benefits shall be accounted for as "other long term employee benefits" in accordance with FRS 19.

FRS 19(126)

The measurement of these benefits follows that of post-employment defined benefits except that (a) all actuarial gains and losses on other long term employee benefits are recognised immediately to income statement and no 'corridor' limit is applied; and (b) all past service costs on other long term employee benefits are recognised immediately in the income statement, even when the benefits are not fully vested.

FRS 19(127)

#### Profit sharing and bonus plans

4. If such benefits are material, the following disclosure is suggested:

FRS 19(17)

*"The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision when contractually obliged to pay or when there is a past practice that has created a constructive obligation to pay."*

5. Under some profit-sharing plans, employees receive a share of the profits only if they remain with the entity for a specified period in the future. The measurement of such benefit shall reflect the possibility that some employees may leave without receiving the profit-sharing payment.

FRS 19(18)

#### Short-term compensated absences

6. If such benefits are material, the following disclosure is suggested:

FRS 19(11)

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

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.23 Currency translation

### (a) Functional and presentation currency

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<sup>1</sup>"). The financial statements are presented<sup>2,3</sup> in Singapore Dollar.

FRS 21(8)

FRS 1(46)(d)

### Guidance Notes

#### Currency translation – (a) Functional and presentation currency

1. Where there is a change in the functional currencies of either the reporting entity or a significant foreign operation, that fact and reason for the change in the functional currencies shall be disclosed.
2. 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 Company's functional currency; and
  - (ii) the reason for using a different currency as its presentation currency.
3. Where a non-Singapore Dollar presentation currency is used for a Singapore-incorporated entity, it is recommended as a best practice to prominently denote this fact.

FRS 21(54)

FRS 21(53)



# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.23 Currency translation (continued)

### (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 at the dates of the transactions. Currency translation differences 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, unless they arise from borrowings in foreign currencies, other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations. Those currency translation differences are recognised in the currency translation reserve in the consolidated financial statements and transferred to the income statement as part of the gain or loss on disposal of the foreign operation.

FRS 21(21)

FRS 21(23)(a)  
FRS 21(28)FRS 21(32)  
FRS 39(102)

FRS 21(48)

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

FRS 21(23)(c)

### (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 exchange 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 currency translation differences are recognised in the currency translation reserve.

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)

FRS 21(59)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.24 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)

## 2.25 Cash and cash equivalents

For the purpose of presentation in the consolidated cash flow statement, cash and cash equivalents include cash on hand, deposits with financial institutions and bank overdrafts<sup>1</sup>. Bank overdrafts are presented as current borrowings on the balance sheet.

FRS 7(45)

### Guidance Notes

#### Cash and cash equivalents

#### Bank overdrafts

1. This policy should be removed if bank overdrafts are not an integral part of the entity's cash management system and thus, not part of cash equivalents. Accounting policy note 2.11(a)(ii) will be sufficient in those cases.

FRS 7(8)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.26 Share capital and treasury shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account<sup>1</sup>.

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 cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

FRS 32(33)

When treasury shares are subsequently 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 earnings of the Company if the shares are purchased out of earnings of the Company.

CA 76G

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of 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 recognised in the capital reserve of the Company.

FRS 32(33)

### Guidance Notes

#### Share capital and treasury shares

1. FRS 32 requires directly attributable costs relating to equity transactions to be recognised in equity, but does not specify which equity account. Accordingly, these costs may also be recognised against retained earnings.

FRS 32(35)

# Notes to the Financial Statements

for the financial year ended 31 December 2007

## 2.27 Dividends to Company's shareholders

Dividends to Company's shareholders are recognised when the dividends are approved for payments.

FRS 10(12)  
FRS 32(35)

## 2.28 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. The assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognised in the income statement. Any subsequent increase in fair value less costs to sell up (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in the income statement.

FRS 105(6,15)

FRS 105(25)

FRS 105(20)

FRS 105(22)

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.