

# Notes to the Financial Statements

For the financial year ended 31 December 2011

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(138)(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(138)(b)

The Group acquired control of XYZ Electronics Group (now known as PwC Components (China) Group), an electronics components manufacturing group operating in China during the financial year (Note 47).

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The glass business segment was discontinued during the financial year (Note 11).

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### Guidance notes

#### General information

- 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 Annual Report):

FRS 1(138)

- 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);
- a description of the nature of the entity’s operations and its principal activities; and
- the name of the parent company and the ultimate parent company of the group (disclosed in Note 44 of these financial statements).

- If the Company changes its name during the financial year, the change shall be disclosed. A suggested disclosure is as follows:

FRS 1(51)(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 2011

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

FRS 1(112)(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).
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(119)

FRS 1(119)

FRS 1(121)

FRS 1(17)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 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, except as disclosed in the accounting policies below.

FRS 1(16)  
SGX 1207(5)(d)  
FRS 1(117)(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 3.

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### Guidance notes

#### Basis 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(25)

FRS 10(14)

FRS 1(25)

FRS 1(25)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.1 Basis of preparation (continued)

### *Interpretations and amendments to published standards effective in 2011*

On 1 January 2011, 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 adoption of these new or amended FRS and INT FRS did not result in substantial changes to the Group's and Company's accounting policies and had no material effect on the amounts reported for the current or prior financial years except for the early adoption of the amendment to FRS 12, of which the effects are disclosed below<sup>2</sup>:

FRS 8(28)

The Group has early adopted the amendment to FRS 12 *Deferred Tax: Recovery of Underlying Assets* on 1 January 2011. The amended FRS 12 has introduced a presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

FRS 12(51c)

Previously, the Group accounted for deferred tax on fair value gains on investment property on the basis that the asset would be recovered through use. Upon adoption of the amendment, such deferred tax is measured on the basis of recovery through sale.

FRS 8(21)

The effects on adoption are as follows<sup>1</sup>:

FRS 8(22)

|                                 | Consolidated balance sheet |   |                      |
|---------------------------------|----------------------------|---|----------------------|
|                                 | At<br>31 December 2011     | At<br>31 December 2010<br>Increase/(Decrease) | At<br>1 January 2010 |
|                                 | \$'000                     | \$'000  | \$'000               |
| Deferred income tax liabilities | (3)                        | (24)  | (15)                 |
| Retained profits                | 2                          | 21  | 13                   |

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.1 Basis of preparation (continued)

|                                | Consolidated income statement<br>for year ended 31 December |        |
|--------------------------------|---|--------|
|                                | Increase/(Decrease)   |        |
|                                | 2011  | 2010   |
|                                | \$'000  | \$'000 |
| Income tax expense             | (21)  | (9)    |
| <b>Profit attributable to:</b> |   |        |
| Equity holders of the Company  | 19  | 8      |
| Non-controlling interests      | 2   | 1      |

The adoption of amended FRS 12 does not have any material impact on the basic and fully diluted EPS of the Group.

### Guidance notes

#### Amendment to FRS 12 *Deferred Tax: Recovery of Underlying Assets*

- Capital allowances may have been claimed for certain qualifying assets which are part of the investment property. Deferred taxes relating to these assets as a result of the capital allowance claim are still required, and should not be written-back as a result of this amendment.

#### Basis of preparation – New or amended Standards and Interpretations effective for 2011 calendar year-ends

- The following are **the other new or amended Standards and Interpretations** that should be disclosed in the Basis of preparation note if the change in accounting policy had a material effect on the current or prior periods, or may have a material effect on future periods:
  - Amendments to FRS 24 *Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011)
  - Amendments to FRS 32 *Classification of Rights Issues* (effective for annual periods beginning on or after 1 February 2010)
  - Amendment to FRS 101 *Limited Exemption from Comparative FRS 107 Disclosures for First-time Adopters* (effective for annual periods beginning on or after 1 July 2010)
  - INT FRS 115 *Agreements for the Construction of Real Estate* (effective for annual periods beginning on or after 1 January 2011)
  - INT FRS 119 *Extinguishing Financial Liabilities with Equity Instruments* (effective for annual periods commencing on or after 1 July 2010)
  - Amendments to INT FRS 114 *Pre-payments of a Minimum Funding Requirement* (effective for annual periods beginning on or after 1 January 2011)

FRS 8(28)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

### Basis of preparation – New or amended Standards and Interpretations effective for 2011 calendar year-ends (continued)

- Annual Improvements 2010 (effective for annual periods beginning on or after 1 January 2011, unless otherwise stated) consisting of minor amendments to the following Standards and Interpretations:
  - FRS 1 *Presentation of Financial Statements*
  - Transition requirements for amendments arising as a result of FRS 27 *Consolidated and Separate Financial Statements* (Effective 1 July 2010)
  - FRS 34 *Interim Financial Reporting*
  - FRS 101 *First-time Adoption of Financial Reporting Standards*
  - FRS 103 *Business Combinations* (Effective 1 July 2010)
  - FRS 107 *Financial Instruments: Disclosures*
  - INT FRS 113 *Customer Loyalty Programmes*

### Basis of preparation – New or amended Standards and Interpretations effective after 1 January 2011

3. The following are the new or amended Standards and Interpretations (issued up to 31 August 2011) that are not yet applicable, but may be early adopted for the current financial year.

#### Annual periods commencing on

#### Description

1 July 2011

Amendments to FRS 101 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* – *Transfers of Financial Assets*

Amendments to FRS 107 *Disclosures* – *Transfers of Financial Assets*

1 January 2012

Amendments to FRS 12 *Deferred Tax: Recovery of Underlying Assets*

# Notes to the Financial Statements

For the financial year ended 31 December 2011

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

FRS 18(35)(a)

Sales comprise 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 are 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 the collectability of the related receivables is reasonably assured 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 and the customers have accepted the parts in accordance with the sales contract.

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 projections 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. Past experience and projections are 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 2011

## 2.2 Revenue recognition (continued)

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

FRS 17(50)  
INT FRS 15(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 revenue sources and terms of business so as to provide the readers with information for a proper understanding of the policies. For example, the following disclosure can be considered if the Group operates a customer loyalty programme:

*"The Group operates a customer loyalty programme for its furniture retail stores. A customer who purchases from any of the Group's furniture retail store will be given purchase credits entitling them to a discount on subsequent purchase. A portion of the revenue from the sale of furniture attributable to the award of purchase credits, estimated based on expected redemption of these credits, is deferred until they are redeemed. These are included under "deferred revenue" on the balance sheet. Any remaining unutilised credits are recognised as revenue upon expiry."*

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 before the acquisition of an interest-bearing investment, the subsequent receipt of interest is allocated between pre-acquisition and post-acquisition periods; only the post-acquisition portion is recognised as revenue.

FRS 18(13)

FRS 18(32)

Where such interest is material, the following disclosure can be considered:

*"Where the Group receives interest that has accrued before its acquisition of an interest bearing investment, such interest received are accounted for as a reduction of the carrying amounts of those investments."*



# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

### Revenue recognition (continued)

5. From 1 January 2009, dividends on equity securities are recognised in income. The previous requirement in FRS 18 to deduct pre-acquisition dividends from the cost of the securities has been removed.
6. When there is a fixed increase in lease payments stipulated in a lease agreement, such as a quasi-compensation for inflation-related increases, the fixed increases in lease payments are part of the minimal lease payments and are spread on a straight-line basis over the lease term.

FRS 18(32)

## 2.3 Government grants

Grants from the government are recognised as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

FRS 20(7)

Government grants receivable are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income<sup>1</sup>.

FRS 20(12)

Government grants relating to assets are deducted against the carrying amount of the assets<sup>2</sup>.

FRS 20(24)

## Guidance notes

### Government grant

1. Grants relating to income should be presented as a credit to the statement of comprehensive income, either separately or under a general heading such as "Other Income". Alternatively, they may be deducted in reporting the related expense.
2. Grants related to assets, shall be presented in the balance sheet either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying value of the asset.

FRS 20(29)

FRS 20(24)

Both methods are acceptable for the presentation of grants relating to income/assets.

# Notes to the Financial Statements

For the financial year ended 31 December 2011

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

### (a) Subsidiaries

#### (i) Consolidation

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a 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. 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(13)  
INT FRS 12(8)

FRS 27(14)

FRS 27(26)

In preparing the consolidated financial statements<sup>2</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(21)

FRS 27(24)

FRS 27(27)

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

FRS 27(28)

#### (ii) Acquisitions

The acquisition method of accounting is used to account for business combinations by the Group.

FRS 103(4)

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

FRS 103(37)

FRS 103(39)

FRS 103(42)

Acquisition-related costs are expensed as incurred.

FRS 103(53)

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

FRS 103(18)

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

FRS 103(19)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.4 Group accounting (continued)

### (a) Subsidiaries (continued)

#### (ii) Acquisitions (continued)

The excess of (i) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (ii) fair value of the net identifiable assets acquired is recorded as goodwill<sup>3</sup>. Please refer to the paragraph “Intangible assets - Goodwill” for the subsequent accounting policy on goodwill.

FRS 103(32)

#### (iii) Disposals

When a change in the Group ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

FRS 27(34)

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

FRS 27(34)(d)

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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## Guidance notes

### Group accounting – (a) Subsidiaries

#### Exemption from preparing consolidated financial statements

- 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 of the Company, the following disclosure can be considered:

FRS 27(42)(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 where those consolidated financial statements can be obtained is as follows: 320 Pier Street, #17-00 Singapore 049900.”*

The exempted parent that elects to prepare separate financial statements 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(42)(b,c)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

### Group accounting – (a) Subsidiaries (continued)

#### Reporting dates of parent and its subsidiaries

2. 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 a 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(22,23)

FRS 27(41)(c)

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))

#### Bargain purchase

3. When the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree is less than the fair value of the net identifiable assets of the subsidiary acquired, the difference – often referred to as “negative goodwill” – is recognised in profit or loss. The following is an illustrative disclosure when “negative goodwill” arises on an acquisition of business (to be inserted after the sentence describing the computation of goodwill):

FRS 103(34)

*“If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.”*

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.4 Group accounting (continued)

### (b) Transactions with non-controlling interests

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Company<sup>1,2</sup>. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised within equity attributable to the equity holders of the Company.

FRS 27(30)

### Guidance notes

#### Group accounting – (b) Transactions with non-controlling interests

- FRS 27(revised) requires a reporting group to treat transactions with non-controlling interests as transactions with equity holders, with the difference between the consideration paid or received and the relevant share of the carrying value of net assets of the subsidiary acquired or disposed being recognised directly in equity. The residual difference is then recognised in retained profits or as a separate reserve within equity.

FRS 27(30), (31)

#### Effects of changes in ownership interest without loss of control

- When a transaction gives rise to a change in a parent's ownership interest in a subsidiary that does not result in a loss of control, FRS 27 (revised) requires disclosure of the effect of such change on the equity attributable to the owners of the parent. A suggested disclosure is as follows:

FRS 27 (41)(e)

FRS 21 (48)(e)

|  | 2011<br>\$'000 | 2010<br>\$'000 |
|--|----------------|----------------|
| Carrying amount of non-controlling interest acquired                           | xx             | xx             |
| Transfers:   |                |                |
| - Currency translation reserve   | xx             | xx             |
| - Fair value reserve   | xx             | xx             |
|  | xx             | xx             |
| Less: Consideration paid to non-controlling interest, net of transaction costs | xx             | xx             |
| Difference recognised in retained profits                                      | xx             | xx             |

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.4 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 voting rights of 20% and above but not exceeding 50%. Investments in associated companies are accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

FRS 28(2)

FRS 28(6)

FRS 28(13)

### (i) Acquisitions

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. Goodwill on associated companies represents the excess of the cost of acquisition of the associate over the Group's share of the fair value of the identifiable net assets of the associate and is included in the carrying amount of the investments<sup>4</sup>.

### (ii) Equity method of accounting

In applying the equity method of accounting, the Group's share of its associated companies' post-acquisition profits or losses are recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the associated companies are adjusted against the carrying amount of the investments. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations to make 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. The 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)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.4 Group accounting (continued)

### (c) Associated companies (continued)

#### (iii) Disposals

Investments in associated companies are derecognised when the Group loses significant influence. Any retained equity interest in the entity is remeasured at its fair value. The difference between the carrying amount of the retained interest at the date when significant influence is lost and its fair value is recognised in profit or loss.

FRS 28(18)

Gains and losses arising from partial disposals or dilutions in investments in associated companies in which significant influence is retained are recognised in profit or loss<sup>3</sup>.

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 2 under Group Accounting – Subsidiaries.

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

##### Exemption from applying equity accounting

2. Exemption from applying equity accounting to its investments in associates is available to an entity when it meets the same conditions as those required under FRS 27 to be exempted from preparing consolidated financial statements. Please refer to guidance note 1 under Group Accounting – Subsidiaries.

FRS 28(13)(b)

##### Decrease in interest in associated companies

3. When significant influence is not lost, only a proportionate share of the amounts previously recognised in other comprehensive income relating to that associate are reclassified to profit or loss and form part of the gain or loss on partial disposal. On the other hand, when significant influence is lost, the entire amounts previously recognised in other comprehensive income relation to that associate are reclassified to profit or loss.

FRS 28(19A)

##### Bargain purchase

4. When the Group's share of the fair value of the identifiable net assets of the associate exceeds the cost of acquisition paid by the Group, the excess is recognised in profit and loss as part of the share of profit from associated companies.

FRS 28(23)(b)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.4 Group accounting (continued)

### (d) Joint ventures

The Group's joint ventures are entities over which the Group has contractual arrangements to jointly share 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>1,2</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 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)

The 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 2.4(c) can be considered. However, when Singapore adopts IFRS 11 *Joint Arrangements* (effective 1 January 2013), the proportional consolidation method of accounting will be eliminated.

FRS 31(38)



## Notes to the Financial Statements

For the financial year ended 31 December 2011

### Guidance notes

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

2. Joint ventures may also take the form of jointly controlled operations and jointly controlled assets, which do not involve the establishment of a separate entity from the venturers themselves. In that case, the venturer will recognise in relation to its interest in the jointly controlled operations or assets:

- the assets it controls, or its share of the jointly-controlled assets;
- the liabilities it incurs;
- the expenses it incurs, and/or its share of the expenses incurred; and
- its share of the income that it earns.

#### Exemption from applying proportional consolidation and equity accounting

3. Exemption from applying proportional consolidation and equity accounting to its investments in joint ventures is available to an entity when it meets the same conditions as those required under FRS 27 to be exempted from preparing consolidated financial statements. Please refer to guidance note 1 under Group Accounting – Subsidiaries.

FRS 31(2)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.5 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 other comprehensive income, unless they offset previous decreases in the carrying amounts of the same asset, in which case, they are recognised in profit or loss. Decreases in carrying amounts that offset previous increases of the same asset are recognised in other comprehensive income. All other decreases in carrying amounts are recognised in profit or loss.

FRS 16(39)  
FRS 21(30)  
  
FRS 16(40)

#### (ii) Other property, plant and equipment

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

FRS 16(15,30)  
FRS 16(73)(a)

#### (iii) Components of costs

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable<sup>5</sup> to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes borrowing costs (refer to Note 2.7 on borrowing costs) and any fair value 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 16(17)  
  
FRS 23(10,11)  
FRS 39(98(b),99)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 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 2.5(a)(ii)) or the revaluation model (as illustrated in Note 2.5(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)

#### Provision for dismantlement, removal or restoration

2. 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 licence and development costs

3. Computer software licence and development costs shall be accounted for as intangible assets using FRS 38 when they are not an integral part to the related hardware. Computer software that is an integral part to the related hardware shall be accounted for as PPE using FRS 16.

FRS 38(4)

#### Spare parts and servicing equipment

4. Minor spare parts and servicing equipment are typically carried as inventory and recognised in profit or loss 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)

#### Directly attributable costs – Self-constructed assets

5. The initial cost of an item of PPE shall include any costs that are 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. While this may be relatively straightforward for items of PPE that are acquired, determining the production cost of a self-constructed asset may be more complex. Such production cost would normally comprise costs associated with material, labour and other inputs used in the construction. It would exclude other costs such as start-up costs, administration and other general overhead costs, advertising and training costs that should be expensed as incurred.

FRS 16(16)(b)

FRS 16(17),(19)

FRS 16(21),(22)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.5 Property, plant and equipment (continued)

### (b) Depreciation

Freehold land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives<sup>1</sup> as follows:

FRS 16(73)(b)  
FRS 16(50)  
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 profit or loss when the changes arise.

FRS 16(51,61)

### (c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

FRS 16(7)  
FRS 16(12)

### (d) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss within “Other losses – net”. Any amount in revaluation reserve relating to that asset is transferred to retained profits directly.

FRS 16(67)

FRS 16(68)  
FRS 16(71)

FRS 16(41)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

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

#### Component approach to depreciation

1. Parts of some items of PPE may require replacement or major overhauls at regular intervals. 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. 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(13-14, 43, 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 profit or loss.”*

#### Depreciation of leasehold land

2. This publication illustrates the accounting for leasehold land classified as a finance lease. It is accounted for as PPE and is depreciated over the shorter of its lease term and useful life. The useful life is the period over which an asset is expected to be available for use by an entity. When assessing the useful life of an asset, all commercial, technical and legal factors, as well as the intention of management should be considered.

FRS 16(6,56-57)

FRS 17(27)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.6 Intangible assets

### (a) Goodwill on acquisitions

Goodwill on acquisitions of subsidiaries and businesses on or after 1 January 2010 represents the excess of (i) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over (ii) the fair value of the net identifiable assets acquired.

FRS 103(32)

Goodwill on acquisition of subsidiaries and businesses prior to 1 January 2010 and on acquisition of joint ventures and associated companies represents the excess of the cost of the acquisition over the fair value of the Group's share of the net identifiable assets acquired.

FRS 28(23)(a)

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

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 profits in the year of acquisition and is not recognised in profit or loss on disposal<sup>2</sup>.

### (b) Acquired trademark and licences

Trademarks and licences acquired are initially recognised at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss 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 licences<sup>3</sup>

Acquired computer software licences 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(27,28)  
FRS 38(66,67)

Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss 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 profit or loss when the changes arise.

FRS 38(104)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 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 the 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 shareholders' equity

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 was taken, goodwill previously recognised against retained profits shall not be recognised in profit or loss on disposal of these entities. Entities should mention this treatment in their accounting policy only if relevant to them.

#### Development of software

3. If an entity is involved in research and development activities, the following disclosure is suggested (using the example of the development of a computer software):

*"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. Research costs are recognised as an expense when incurred."*

FRS 38(57)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.7 Borrowing costs

Borrowing costs are recognised in profit or loss using the effective interest method except for those costs that are directly attributable to the construction or development of properties and assets under construction. This includes those costs on borrowings acquired specifically for the construction or development of properties and assets under construction, as well as those in relation to general borrowings used to finance the construction or development of properties and assets under constructions.

FRS 23 (8,12,14)

FRS 39(47)

The actual borrowing costs incurred during the period up to the issuance of the temporary occupation permit less any investment income on temporary investment of these borrowings, are capitalised in the cost of the property under development. Borrowing costs on general borrowings are capitalised by applying a capitalisation rate to construction or development expenditures that are financed by general borrowings.

### Guidance notes

#### Capitalisation of general borrowing costs

1. Where funds are borrowed generally and used for financing the asset's construction or development, the borrowing costs eligible for capitalisation shall be determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate should be the weighted average of the borrowing rates applicable to the borrowings of the entity that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised during a period should not exceed the amount of borrowing costs incurred during the period.

FRS 23(14)



# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.8 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 proportion of 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 the 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 cumulative costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where the cumulative 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 the cumulative 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 by customers 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 2011

## 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. An entity should select the method that best reflects the stage of completion of its construction contracts.
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 2011

## 2.9 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 is held for long-term capital appreciation or for a currently indeterminate use. Investment properties include properties that are being constructed or developed for future use as investment properties.

FRS 40(6)  
FRS 40(5,10)  
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 profit or loss.

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 and the carrying amounts of the replaced components are recognised in profit or loss. The cost of maintenance, repairs and minor improvements is recognised in profit or loss when incurred.

On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

FRS 40(66)

### Guidance notes

#### Investment properties

##### Classification as investment property

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 judgement involved.

FRS 40(75)(c)  
FRS 1(122)

##### Property interests

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.

FRS 40(6,25)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

### Investment properties (continued)

#### Cost model

3. A reporting entity can choose to apply the cost model, provided it does not classify any property interest held under operating leases as investment property. The following accounting policy may be adopted:

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 profit or loss 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 if possible, the range of estimates within which fair value is highly likely to lie.

#### Determination of fair value

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.

#### Transfer in and out of investment properties

5. There are specific recognition and/or measurement requirements dealing with transfers from investment properties to property, plant and equipment or inventories 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 2011

## 2.10 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 profit or loss.

FRS 27(38)  
FRS 27(42)(c)

### Guidance notes

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

##### Investments accounted for in accordance with FRS 39

1. When separate financial statements of the Company 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 or loss in the consolidated financial statements. Accordingly, when the choice has been made to account for them at fair value through profit or loss in the consolidated financial statements, they shall also be accounted for at fair value through profit or loss in the separate financial statements of the investor.

FRS 28(1)

##### Dividends received from subsidiaries, joint ventures and associated companies

3. Dividends received from subsidiaries, joint ventures and associated companies are recognised in profit or loss in the separate financial statements of the Company.
4. The receipt of a dividend from a subsidiary, joint venture or associated company is an indicator of impairment of the relevant investment when:
  - (a) the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or
  - (b) the dividend exceeds the total comprehensive income of the subsidiary, joint venture or associate in the period the dividend is declared.

FRS 27(38A)

FRS 36(12)(h)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.11 Impairment of non-financial assets

### (a) Goodwill

Goodwill recognised separately as an intangible asset is tested for impairment annually and whenever there is indication that the goodwill may be impaired.

FRS 36(9,10(b))

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

FRS 36(80)

An impairment loss is recognised when the carrying amount of a CGU, including the goodwill, exceeds the recoverable amount of the CGU. The 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 as an expense and is not reversed<sup>1</sup> in a subsequent period.

FRS 36(60)

FRS 36(124)

### (b) Intangible assets

*Property, plant and equipment*

*Investments in subsidiaries, associated companies and joint ventures*

Intangible assets, property, plant and equipment and investments in subsidiaries, associated companies and joint ventures are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

FRS 36(9,10)

FRS 28(33)

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 inflows 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 profit or loss, 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 a revaluation decrease.

FRS 36(60)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

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

### (b) Intangible assets

#### *Property, plant and equipment*

#### *Investments in subsidiaries, associated companies and joint ventures (continued)*

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 this asset 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 profit or loss, 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 as an expense, a reversal of that impairment is also credited to profit or loss.

FRS 36(119)

### Guidance notes

#### Impairment of non-financial assets

##### Impairment loss on goodwill

1. An entity shall not reverse an impairment loss recognised in a previous interim period (e.g. 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)

##### Assets carried at revalued amounts

2. 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 2011

## 2.12 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 nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition<sup>1</sup> and in the case of assets classified as held-to-maturity, re-evaluates this designation at each balance sheet date.

FRS 39(9)

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified 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(66)

#### (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 expected to be realised 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” (Note 17) and “cash and cash equivalents” (Note 13) on the balance sheet.

FRS 39(9)

FRS 1(66)

#### (iii) Held-to-maturity financial assets

Held-to-maturity financial assets, 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(66)

#### (iv) Available-for-sale financial assets

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

FRS 107 AppB5(b)

FRS 39(9)

FRS 1(66)



# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.12 Financial assets (continued)

### (b) Recognition and derecognition

Regular way<sup>2</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 profit or loss. Any amount in other comprehensive income relating to that asset is reclassified to profit or loss.

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 or loss are recognised immediately as expenses.

FRS 39(43)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.12 Financial assets (continued)

### Guidance notes

#### Financial assets – (a) Classification

##### Reclassification of financial assets

1. An entity is permitted to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in the following circumstances:
  - If the financial asset meets the definition of loans and receivables at the date of reclassification and the entity at that date has the intent and ability to hold it for the foreseeable future or to maturity. Note that a financial asset cannot meet the definition of loans and receivables if it is quoted in an active market or if it represents an interest in a pool of assets that are not themselves loans and receivables.
  - For other financial assets (that is, those that do not meet the definition of loans and receivables) only in rare circumstances, provided that these financial assets are no longer held for the purpose of selling or repurchasing in the near term and meet the definition of the target category. A “rare circumstance” is defined as arising “from a single event that is unusual and highly unlikely to recur in the near-term”, like the deterioration of the world’s financial markets that occurred during the third quarter of 2008.

FRS 39(50)

FRS 39(50D)

FRS 39(50B)

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

##### Trade date versus settlement date

2. 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, this disclosure can be omitted.

FRS 39(9)

FRS 39(38)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.12 Financial assets (continued)

### (d) Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss, are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets 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 dividends<sup>1</sup>, are recognised in profit or loss when the changes arise.

FRS 39(55)(a)

FRS 107 AppB5(e)

FRS 21(30)

Interest and dividend income<sup>1</sup> on available-for-sale financial assets are recognised separately in income. 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 profit or loss and the other changes are recognised in other comprehensive income and accumulated in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in other comprehensive income and accumulated 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:

FRS 39(55)(a)

FRS 107 AppB5(e)

- (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 available-for-sale financial assets 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)(b)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.12 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)  
FRS107 AppB5(f)

#### (i) Loans and receivables/Held-to-maturity financial assets

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 profit or loss.

FRS 39(63)

The impairment allowance is reduced through profit or loss 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) Available-for-sale financial assets

In addition to the objective evidence of impairment described in Note 2.12(e) (i), a significant or prolonged decline in the fair value of an equity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

FRS 39(61)

If any evidence of impairment exists, the cumulative loss that was previously recognised in other comprehensive income is reclassified to profit or loss. 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 as an expense. The impairment losses recognised as an expense on equity securities are not reversed through profit or loss.

FRS 39(67)  
FRS 39(68)  
FRS 39(70)  
FRS 39(69)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.12 Financial assets (continued)

### Guidance notes

#### Financial assets – (e) Impairment

1. 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.
2. An entity shall not reverse an impairment loss recognised in the previous interim period in respect of an investment in either an equity instrument or a financial asset carried at cost or goodwill.

FRS 39(63)

INT FRS 110(8)

#### (f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

FRS32(42)E

## 2.13 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 profit or loss 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)

Intra-group transactions are eliminated on consolidation<sup>3</sup>.

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 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 2011

## 2.14 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, in which case they are presented as non-current liabilities.

FRS 1(69)

### (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 profit or loss over the period of the borrowings using the effective interest method.

FRS 39(43)

FRS 39(47)

### (b) Redeemable preference shares<sup>2</sup>

Preference shares which are mandatorily redeemable on a specific date are classified as liabilities. The dividends on these preference shares are recognised as finance expenses.

FRS 32(18)(a)

FRS 32(36)

### (c) Convertible bonds<sup>3</sup>

The total proceeds from convertible bonds issued 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 any 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 is transferred to the share capital. When the conversion option lapses, its carrying amount is transferred to retained profits.

FRS 32 AG32

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

### Borrowings

#### Derecognition

1. Borrowings are derecognised when the obligation is discharged, cancelled or expired. The difference between the carrying amount and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

FRS 39 AG57

FRS 39 AG63

#### Classification of preference shares

2. 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 a liability or equity.

FRS 32(15-16)

FRS 32(18)(a)

FRS 32(15-16,28)

#### Conversion options

3. If the conversion option in a convertible bond is settled other than by the exchange of a fixed amount of cash or other financial asset for a fixed number of the issuer's own equity instruments, the conversion option is a derivative liability. The derivative is required to be carried at fair value with changes in fair value recognised in profit or loss.

FRS 32(11)

An example of a conversion option that is a derivative liability is found in a convertible bond that is denominated in a foreign currency. This is because the fixed amount of the foreign currency bond that will be extinguished if the holder converts represents a variable amount of cash in the functional currency of the issuer. An example of such a convertible bond is given in the illustrative disclosure in Appendix 1 Example 6 of this publication.

FRS 32(28,15-16)

FRS 32 AG27(d)

#### Facility fees

4. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

FRS 39 IG E1.1

#### Debt for equity swap

5. When equity instruments are issued to a creditor to extinguish all or part of a financial liability, an entity shall measure the equity instrument at its fair value, unless that fair value cannot be reliably measured in which case, the instrument shall be measured using the fair value of the financial liability extinguished.

INT FRS 119(9)

The difference between the carrying amount of the financial liability (or part of a financial liability) extinguished and the consideration paid shall be recognised in profit or loss. The equity instruments issued shall be recognised initially and measured at the date the financial liability is extinguished.

An entity shall disclose a gain or loss from such debt for equity swap as a separate line item in profit or loss or in the notes.



# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.15 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

FRS 39(43,47)

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

## 2.16 Derivative financial instruments and hedging activities

FRS 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)

Fair value changes on derivatives that are not designated or do not qualify for hedge accounting are recognised in profit or loss when the changes arise.

FRS 107(21)

FRS 39(55)

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(66,69)

### (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 profit or loss. The fair value changes on the effective portion of currency forwards designated as fair value hedges are recognised in profit or loss 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 profit or loss.

FRS 39(88,93)

FRS 39(89)(b)

FRS 39(89)(a)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.16 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 other comprehensive income, accumulated in the fair value reserve and reclassified to profit or loss when the hedged interest expense on the borrowings is recognised in profit or loss. The fair value changes on the ineffective portion of interest rate swaps are recognised immediately in profit or loss.

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 other comprehensive income, accumulated in the hedging reserve and transferred to either the cost of a hedged non-monetary asset upon acquisition or profit or loss when the hedged forecast transactions are recognised.

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

The fair value changes on the ineffective portion of currency forwards are recognised immediately in profit or loss. When a forecasted transaction is no longer expected to occur, the gains and losses that were previously recognised in other comprehensive income are reclassified to profit or loss 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 other comprehensive income in the consolidated financial statements, accumulated in the currency translation reserve and reclassified to profit or loss 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 profit or loss.

FRS 39(102)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.17 Fair value estimation of financial assets and liabilities

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 107(27)  
FRS 39 AG69  
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)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.18 Leases

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

The Group leases land, 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 profit or loss on a basis that reflects a constant periodic rate of interest on the finance lease liability.

FRS 17(25)

#### (ii) Lessee - Operating leases

Leases 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 profit or loss 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 profit or loss when incurred.

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.18 Leases (continued)

### (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 has 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss when earned.

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 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 a finance lease are added to the carrying amount of the leased asset and recognised as an expense in profit or loss over the estimated useful life of the asset.”*

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 pre-payments and recognised in profit or loss 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 profit or loss 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 is required to be 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 2011

## 2.19 Inventories<sup>1</sup>

Inventories are carried at the lower of cost<sup>2,3</sup> 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<sup>5</sup>. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses.

FRS 2(9)  
FRS 2(36)(a),(25)  
FRS 2(10)  
FRS 23(6,7)  
FRS 39(98(b),99)  
  
FRS 2(6)

### Guidance notes

#### Inventories

##### Cost of inventories of a service provider

1. 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)

##### Cost of inventories

2. Costs include all cost of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
3. Cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

FRS 2(10,11)

FRS 2(11)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

### Cost of inventories (continued)

4. Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

FRS 2(15,16)

Examples of costs excluded from the cost of inventories and recognised as expenses in the period in which they are incurred are:

- (a) abnormal amounts of wasted materials, labour or other production costs;
- (b) storage costs, unless those costs are necessary in the production process before a further production stage;
- (c) administrative overheads that do not contribute to bringing inventories to their present location and condition; and
- (d) selling costs.

### Hedging of purchases of inventories

5. Management may choose to keep these gains in the hedging reserve until the acquired asset affects profit or loss. At this time, management should re-classify the gains to profit or loss. However, if management expects that all or a portion of a loss recognised directly in other comprehensive income will not be recovered in one or more future periods, it shall reclassify the amount that is not expected to be recovered into profit or loss.

FRS 39(98)(a)

### Property under development for future sale

6. Property under development for sale that is sold prior to completion shall be accounted for in accordance to the requirements of INT FRS 115 *Agreements for the Construction of Real Estate*. For an illustrative disclosure of the adoption of INT FRS 115, please refer to Appendix 1 Example 7.

INT FRS 115



# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 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)

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 except for investment properties. Investment property measured at fair value is presumed to be recovered entirely through sale<sup>1</sup>.

FRS 12(47)

FRS 12(51)

Current and deferred income taxes are recognised as income or expense in profit or loss, 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)

### Guidance notes

#### Income taxes

#### Amendment to FRS 12 *Deferred Tax: Recovering of Underlying Assets*

1. The amended FRS 12 *Income Taxes*, which is applicable retrospectively to annual periods beginning on or after January 2012 (with early adoption permitted) has introduced a rebuttable presumption that an investment property measured at fair value is recovered entirely through sale. Please also refer to Note 2.1 on the illustrative disclosure of the effects of early adoption.

FRS 12(51C)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.21 Provisions<sup>1</sup>

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 statement of comprehensive income as finance expense.

FRS 37(45,47)

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

FRS 37(59)

### Guidance notes

#### Provisions

#### Onerous contracts

1. If the entity has entered into any onerous contract, the following disclosure is suggested:

FRS 37(66)

*“Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.”*

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## 2.22 Employee compensation<sup>1</sup>

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

FRS 19(44)(b)

### (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.

FRS 19(7)

### (b) Share-based compensation<sup>2,3</sup>

The Group operates an equity-settled, share-based compensation plan. The value of the employee services received in exchange for the grant of options is recognised as an expense 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 profit or loss, 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<sup>4</sup>.

### (c) Termination benefits<sup>5</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 2011

## 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.

#### Share-based compensation – Cash-settled plan

2. If the Group operates a cash-settled share-based compensation plan, the following disclosure is suggested:

FRS 102(30)

*“For cash-settled share-based compensation, the fair value of the employee services received in exchange for the grant of options is recognised as an expense with the recognition of a corresponding liability over the vesting period. Until the liability is settled, it is re-measured at each reporting date with changes in fair value recognised in profit or loss.”*

#### Share-based compensation – Modification

3. If there is any modification of the share option plan, the following disclosure is suggested:

FRS 102(27)

*“Where the terms of the share option plan are modified, the expense that is not yet recognised for the award is recognised over the remaining vesting period as if the terms had not been modified. Additional expense is recognised for any increase in the total fair value of the share options due to the modification, as measured at the date of the modification.”*

#### Share-based compensation – Transfer of share option reserve

4. The transfer of the balance in the share option reserve to share capital or treasury shares upon exercise of the option and the transfer of the balance in the share option reserve to retained profits upon expiry of the option are not mandatory. Alternatively, the share option reserve may be kept as a separate reserve upon expiry or exercise of the option. It may also be transferred to retained profits upon exercise of the option.

FRS 102(23)

#### Termination benefits versus post-employment benefits

5. 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.

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

### Employee compensation (continued)

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

6. 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 in profit or loss and no “corridor” limit is applied; and (b) all past service costs on other long term employee benefits are recognised immediately in profit or loss, even when the benefits are not fully vested.

FRS 19(127)

#### Profit sharing and bonus plans

7. 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.”*

8. Under some profit-sharing or deferred bonus plans, employees receive a share of the profits/bonus 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. A liability for the benefit shall be accrued over the vesting period.

FRS 19(18)

#### Short-term compensated absences

9. 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 2011

## 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 Dollars, which is the functional currency of the Company.

FRS 21(8)

FRS 1(51)(d)

### Guidance notes

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

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

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## Notes to the Financial Statements

For the financial year ended 31 December 2011

### 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 resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss. However, in the consolidated financial statements, currency translation differences arising from borrowings in foreign currencies and other currency instruments designated and qualifying as net investment hedges and net investment in foreign operations, are recognised in other comprehensive income and accumulated in the currency translation reserve.

FRS 21(21)

FRS 21(23)(a)  
FRS 21(28)FRS 21(32)  
FRS 39(102)  
FRS 21(48)

When a foreign operation is disposed of or any borrowings forming part of the net investment of the foreign operation are repaid, a proportionate share of the accumulated translation differences is reclassified to profit or loss, as part of the gain or loss on disposal.

FRS 21(59)

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within "finance cost". All other foreign exchange gains and losses impacting profit or loss are presented in the income statement within "other losses – net".

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 reporting date;
- (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 other comprehensive income and accumulated in the currency translation reserve.

FRS 1(79)(b)

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date<sup>1</sup>.

FRS 21(47)

# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

### Currency translation on acquisition of foreign operations

1. For acquisitions prior to 1 January 2005, the goodwill and fair value adjustments are translated at the exchange rates at the dates of acquisition.

## 2.24 Segment reporting

FRS 108(5)(b)

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

## 2.25 Cash and cash equivalents

FRS 7(45)

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits with financial institutions which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are presented as current borrowings on the balance sheet.

## 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 profits 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 an 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.

FRS 32(33)



# Notes to the Financial Statements

For the financial year ended 31 December 2011

## Guidance notes

### Share capital and treasury shares

- 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 profits.

FRS 32(35)

## 2.27 Dividends to Company's shareholders

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

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 are not depreciated or amortised while they are classified as held-for-sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

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)

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