

Creating Value With Trust And Transparency

*Illustrative Annual
Report 2011*



pwc

About PricewaterhouseCoopers

Building relationships that create value

PwC is one of the world's largest providers of assurance, tax, and business consulting services. We believe that the best outcomes are achieved through close collaboration with our clients and the many stakeholder communities we serve. So every day, 161,000 PwC people in 154 countries work hard to build strong relationships with others and understand the issues and aspirations that drive them.

PwC Singapore operates on a collaborative basis with PwC China, Taiwan and Hong Kong, subject to local applicable laws. Collectively, we have around 620 partners and a strength of 14,000 people. As a leading professional services firm, we count among our clients, top-tier companies listed on the stock exchanges in the respective cities, including the Singapore Exchange, multinationals and emerging local companies.

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Foreword



The past few years have been an eventful period for the global economy and the corporate reporting landscape. The world's financial markets were shrouded in uncertainty and has at times suffered punishing losses stemming from global factors such as the sovereign debt crises, which negatively impacted investment activity in many countries. Rapid developments in financial reporting requirements are hot on the heels of widespread concern over the state of the global economy. The world does not look particularly rosy at the moment, and sustaining trust in corporate financial reporting has never been more crucial to businesses around the world.

While economists are still clinging on to hope for better days, no one knows with certainty how and when the global economy will turn around from this challenging times, and how the new wave of accounting standards coming our way in the near future will impact the landscape of corporate financial reporting. One certainty is the constant change to the reporting landscape. In spite of these challenges, businesses must manage these changes to continue producing robust and reliable financial reporting to create and maintain trust in the global capital markets. Such trust is also imperative in seeing your business through the rough waters in the global economy ahead.

The 2011 edition of PwC Illustrative Annual Report" is developed to assist company directors, audit committee members, management and preparers of financial statements to better understand and implement the existing and new financial reporting standards in an effective and efficient manner. We hope to help you achieve the "gold-standard" of financial reporting that complies with the various requirements of the Singapore Financial Reporting Standards, Singapore Companies Act and Singapore Exchange Listing Manual.

We trust that you will find this publication an excellent resource document to assist you in the preparation of your companies' annual reports for the coming financial year-end. And we also encourage you to consult your regular PwC contact should you have any questions or comments regarding this publication or the implementation of the new accounting standards.

A handwritten signature in black ink, appearing to read 'Yeoh Oon Jin', with a long horizontal flourish extending to the right.

Yeoh Oon Jin
Singapore Assurance Leader
September 2011

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Abbreviations used

References are made in this publication to the legislation, accounting pronouncement, guideline or listing rule that requires a particular disclosure or accounting treatment. The abbreviations used to identify the source of authority are as follows:

| | |
|---------|---|
| ACGC | Audit Committee Guidance Committee – Guidebook for Audit Committee in Singapore |
| CA | Singapore Companies Act, Chapter 50 |
| CCG | Code of Corporate Governance Guidance Notes |
| FRS | Singapore Financial Reporting Standards |
| IAS | International Accounting Standards |
| IFRS | International Financial Reporting Standards |
| IFRIC | Interpretations of International Financial Reporting Standards |
| INT FRS | Interpretations of Singapore Financial Reporting Standards |
| SGX | Singapore Exchange Securities Trading Listing Manual Requirements |
| SSA | Singapore Standards on Auditing |

Where the illustrated disclosure is not specifically required by any of the sources listed above, the following abbreviation is used to indicate that such disclosure is made on a voluntary basis:

| | |
|----|-------------------------|
| DV | Disclosure is voluntary |
|----|-------------------------|

Publication Guide

Scope

This publication, Illustrative Annual Report 2011, provides a sample annual report of a fictitious group of companies for the financial year ending 31 December 2011. PwC Holdings Ltd is a company incorporated in Singapore and its shares are listed on the Main Board of the Singapore Exchange Limited (“SGX”).

The names of people and entities included in this publication are fictitious. Any resemblance to a person or entity is purely coincidental.

Effective date

This illustrative annual report includes sample disclosures under the requirements of the Singapore Companies Act, SGX Securities Trading Listing Manual, Singapore Financial Reporting Standards (including its Interpretations) that are effective for financial year commencing on 1 January 2011.

Illustrative in nature

The sample disclosures in this illustrative annual report should not be considered to be the only acceptable form of presentation. The form and content of each reporting entity’s annual report are the responsibility of the entity’s directors/management and other forms of presentation which are equally acceptable may be preferred and adopted, provided they include the specific disclosures prescribed in the Singapore Companies Act, SGX Securities Trading Listing Manual and Singapore Financial Reporting Standards.

The illustrative financial statements contained in this annual report are not substitutes for reading the legislation or standards themselves, or for professional judgement as to fairness of presentation. They do not cover all possible disclosures required by the Singapore Companies Act, SGX Securities Trading Listing Manual and Singapore Financial Reporting Standards. Depending on the circumstances, further specific information may be required in order to ensure fair presentation and compliance with laws, accounting standards and stock exchange regulations in Singapore.

Similarly, the corporate governance disclosures illustrated in this annual report are not meant to be templates for all reporting entities. The board of directors/management for each reporting entity should formulate the corporate strategies and control measures tailored to the entity’s particular circumstances and corporate governance processes. It therefore follows that corporate governance disclosures in annual reports will necessarily differ from one reporting entity to the other.

Guidance notes

Direct references to the source of disclosure requirements are included in the reference column on each page of the illustrative financial statements. Guidance notes are provided where additional matters may need to be considered in relation to a particular disclosure. These notes are inserted within the relevant section or note.

Seek professional advice

The information in this publication does not constitute professional advice. If professional advice is required, the services of a competent professional should be sought. Neither PricewaterhouseCoopers LLP (Singapore) nor any employee of the firm shall be liable for any damage or loss of any kind on any ground whatsoever suffered as a result of any use of or reliance on this publication.

PwC Holdings Ltd

(Incorporated in Singapore)

And its Subsidiaries

Illustrative Annual Report
For the financial year ended 31 December 2011



PwC Holdings Ltd and its Subsidiaries

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PwC Holdings Ltd and its Subsidiaries

Reference

Board of Directors

As at 19 March 2012

Mr Tan Cheng Eng

Independent, Non-executive Director

Aged 58, Singaporean

SGX 1207(4)(b)(iii),
CG Guideline 4.6

- Chairman of Board of Directors
- Chairman of Remuneration Committee
- Member of Audit Committee

Mr Tan Cheng Eng was appointed to the Board on 1 February 1979 and appointed as the Chairman of the Board and of the Remuneration Committee on 13 September 2002. He is also a non-executive Chairman of Data Bank Holding Ltd and an Executive Director of Homegrown Securities Ltd, both of which are listed on the Singapore Exchange Securities Trading Limited ("SGX-ST"). Mr Tan was last re-elected as a Director of the Company on 29 April 2011.

Mr Tan holds a Master degree in Financial Engineering from Harvard University, USA and a Bachelor of Arts (Mathematics) degree from University College London. He has 30 years of experience in the finance industry, of which 17 years were in the securities industry. He also serves on the council of the Society of Financial Advisory Consultants and on the boards of the National Symposium Council and the Singapore Music Conservatory.

Mr David Grey

Non-independent, Non-executive Director

Aged 61, English

- Member of Board of Directors
- Member of Audit Committee

Mr David Grey joined the Board on 15 May 1983 and was last re-elected on 17 May 2010. He is also an Executive Director of PwC Global Ltd, the ultimate holding corporation of PwC Holdings Ltd.

Mr Grey holds a Master of Science from London School of Business, United Kingdom and PhD in Bioinformatics from Imperial College London. He has more than 20 years of experience in the pharmaceutical industry. He has served as the Chairman of the European Union Biotechnology Board, a company listed on the London Stock Exchange since 2000 and was a Council Member of the Institute of Biomedical Practitioners, United Kingdom between 2003 and 2005.

PwC Holdings Ltd and its Subsidiaries

Reference

Board of Directors

As at 19 March 2012

Mr Ang Boon Chew

Chief Executive Officer

Aged 47, Singaporean

- Member of Board of Directors

Mr Ang Boon Chew was appointed to the Board on 18 February 2000 and was last re-elected on 17 May 2010. He joined PwC Components (Singapore) Pte Ltd, a subsidiary of PwC Holdings Ltd, in 1982 and became its Chief Executive Officer on 1 October 1992. He was subsequently appointed as the General Manager of PwC Holdings Ltd on 2 November 1997 and became its Chief Executive Officer on 18 February 2000.

Mr Ang graduated from the National University of Singapore with a Bachelor of Engineering (Electrical and Electronics) degree. He is a Fellow of the Institute of Engineers, Singapore and a Board member of the National Fire Prevention Council. He has more than 20 years of experience in the electrical component parts industry.

Dr Ran Jedwin Gervasio

Executive Director

Aged 44, American

- Member of Board of Directors
- Member of Risk Committee

Dr Ran Jedwin Gervasio joined the Board on 26 February 2012. He is the founding member of Visionary Component Inc. (now known as PwC Components (Philippines) Pte Ltd), a subsidiary of PwC Holdings Ltd.

Dr Ran holds a PhD in Electrical Electronic Engineering from University of North Carolina, USA. He has 25 years of experience in the component parts industry, including four years as a professor in University of Michigan, USA. He has served as an honorary professor of the University of Philippines since 2000, and a Non-executive Director of Routers Electronics Inc., a corporation listed on the New York Stock Exchange since 2003.

Mr Lee Chee Wai

Independent, Non-executive Director

Aged 56, Singaporean

- Member of Board of Directors
- Member of Nomination Committee
- Member of Remuneration Committee
- Member of Risk Committee

Mr Lee Chee Wai joined the Board on 1 May 2011.

He graduated with a Bachelor of Law (Hons) degree from National University of Singapore.

He began his career with an international law firm in 1975, and was subsequently employed as the Company Secretary and Legal Advisor of a multinational group of companies in Singapore in 1982. He commenced his professional practice in 1987 and is currently an Advocate & Solicitor of Lee, Lim & Tan, a legal firm, where he has been a partner for the past 16 years.

PwC Holdings Ltd and its Subsidiaries

Reference

Board of Directors

As at 19 March 2012

Mr Michael Philip White

Independent, Non-executive Director

Aged 52, Norwegian

- Member of Board of Directors
- Member of Audit Committee
- Chairman of Nomination Committee

Mr Michael Philip White joined the Board on 1 July 2004. He was re-elected as a director and appointed as the Chairman to the Nomination Committee on 1 May 2011.

Mr White graduated from Stavanger University College, Norway with a Master of Commerce degree. He subsequently obtained a Master in Management of Technology from University of Helsinki, Finland. He is also a Fellow of the Singapore Computer Society.

He started his career with a multinational group of telecommunication companies in Norway. He was subsequently employed to head the Asia Pacific operations of Datacom, a company listed on the Norway-Oslo Stock Exchange in 1985. In 2004 he became the Managing Director of Moonstar Ltd, a telecommunication company listed on the Singapore Stock Exchange.

Madam Wan Oon Kee

Independent, Non-executive Director

Aged 48, Singaporean

- Member of Board of Directors
- Member of Audit Committee
- Member of Nomination Committee
- Chairman of Risk Committee

Madam Wan Oon Kee was appointed to the Board on 31 July 2002 and was last re-elected on 31 July 2010.

Madam Wan holds a Bachelor of Science (Building Control) degree from the University of London and a Master of Business Administration from Harvard Business School, US. She is currently a member of the Royal Institution of Chartered Surveyors, United Kingdom and a Council Member of the Singapore Institute of Surveyors and Valuers.

She has more than 20 years of experience in the real estate industry. Beginning her career at Singapore Land Authority, she joined Leading Real Estate Marketing Pte Ltd as a Chief Operating Officer in 1996. She has been the Managing Director of Leading Real Estate Marketing Pte Ltd since 2000.

PwC Holdings Ltd and its Subsidiaries

Reference

Board of Directors

As at 19 March 2012

Mr Balachandran Nair

Independent, Non-executive Director

Aged 62, Singaporean

- Member of Board of Directors
- Chairman of Audit Committee
- Member of Remuneration Committee

Mr Balachandran Nair joined the Board on 1 July 1998 and was last re-elected on 30 June 2011. He is also the Chairman of the Audit Committee.

Mr Nair graduated with a Bachelor of Accountancy degree from National University of Singapore. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Institute of Certified Public Accountants of Singapore (ICPAS).

He has 45 years of experience in finance and management. He was the Head of Internal Audit Department of Port Aviation Ltd, a listed company on Singapore Stock Exchange, between 1996 and 2005. He is the Chief Operating Officer of the Asia Pacific operations of Efficient Shipping Ltd, a company listed on the New York Stock Exchange since 2006. He is also the Chairman of the Trustees of Singapore Healthcare Fund, Asia Pacific Development Fund and Global Diversified Fund since 2003.

Principle 4: Board Membership

There should be a formal and transparent process for the appointment of new directors to the Board.

CG Guideline 4.6

Key information regarding directors, such as academic and professional qualifications, shareholding in the company and its subsidiaries, board committees served on (as a member or Chairman), date of first appointment as a director, date of last re-election as a director, directorships or chairmanships both present and those held over the preceding three years in other listed companies and other major appointments, should be disclosed in the annual report. In addition, the company's annual disclosure on corporate governance should indicate which directors are executive, non-executive or considered by the Nominating Committee to be independent. The names of the directors submitted for election or re-election should also be accompanied by such details and information to enable shareholders to make informed decisions.

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

For the financial year ended 31 December 2011

The corporate governance report is prepared for illustrative purposes and describes the Group's corporate governance practices and structures, with specific reference to the principles and guidelines of the 2005 Code. Listed companies are required to describe their corporate governance practices with specific reference to the principles of the Code and to explain any deviations from any guideline in the 2005 Code in their annual reports.

SGX 710

The Board of Directors (the "Board") is committed to ensuring that the highest standards of corporate governance are practised throughout PwC Holdings Ltd (the "Company") and its subsidiaries (the "Group"), as a fundamental part of its responsibilities to protect and enhance shareholder value and the financial performance of the Group.

SGX 710

In July 2005, the Singapore Council on Corporate Disclosure and Governance issued a revised Code of Corporate Governance (the "2005 Code") that replaced the Code of Corporate Governance that was issued in March 2001 (the "2001 Code"). Companies are required to disclose their corporate governance practices and explain deviations from the 2005 Code in their annual reports for annual general meetings held from 1 January 2007 onwards.

This report describes the Group's corporate governance practices and structures that were in place during the financial year ended 31 December 2011, with specific reference to the principles and guidelines of the 2005 Code, and where applicable, the Listing Manual of the Singapore Exchange Securities Trading Limited ("SGX-ST"), the Singapore Companies Act and the Audit Committee Guidance Committee ("ACGC") Guidebook which was issued on 30 October 2008, focusing on areas such as internal controls, risk management, financial reporting, internal and external audit.

The Board has adhered to all principles and guidelines set out in the 2005 Code as set out below.

The 2005 Code

The 2005 Code is divided into four main sections, namely:

- (A) Board Matters
- (B) Remuneration Matters
- (C) Accountability and Audit
- (D) Communication with Shareholders

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

For the financial year ended 31 December 2011

(A) BOARD MATTERS

The Board of Directors as at 19 March 2012 comprises:

Mr Tan Cheng Eng (Chairman and Non-executive Director)

Mr Ang Boon Chew (Chief Executive Officer)

Mr David Grey (Non-executive Director)

Dr Ran Jedwin Gervasio (Executive Director)

Mr Balachandran Nair (Non-executive Director)

Mr Michael Philip White (Non-executive Director)

Madam Wan Oon Kee (Non-executive Director)

Mr Lee Chee Wai (Non-executive Director)

A description of the background of each director is presented in the “Board of Directors” section of this annual report.

CG Guideline 4.6

Principle 1: The Board’s Conduct of Affairs

Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with Management to achieve this and the Management remains accountable to the Board.

CG Guideline 1.1

The Board’s role is to:

- (a) provide entrepreneurial leadership, set strategic aims, and ensure that the necessary financial and human resources are in place for the company to meet its objectives;
- (b) establish a framework of prudent and effective controls which enables risk to be assessed and managed;
- (c) review management performance; and
- (d) set the company’s values and standards, and ensure that obligations to shareholders and others are understood and met.

The Board’s role is to:

- provide entrepreneurial leadership, set strategic aims, and ensure that the necessary financial and human resources are in place for the Group to meet its objectives;
- establish a framework of prudent and effective controls which enables risk to be assessed and managed;
- review management’s performance; and
- set the Group’s values and standards, and ensure that obligations to shareholders and others are understood and met.

CG Guideline 1.1

The Board regularly reviews the business plans, the assessment of key risks by management and assesses the adequacy of internal controls and the financial performance of the Group. The Board has overall responsibility for putting in place a framework of good corporate governance in the Group, including the processes for financial reporting and compliance with relevant regulations. All Board members bring their independent judgment, diversified knowledge and experience to bear on issues of strategy, performance, resources and standards of conduct.

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

For the financial year ended 31 December 2011

CG Guideline 1.5

Companies should adopt internal guidelines setting forth matters that require board approval, and specify in their corporate governance disclosures the type of material transactions that require board approval under such guidelines. The Board has adopted a set of guidelines on matters that require its approval. Matters which are specifically reserved for the Board's decision include those involving business plans and budgets, material acquisitions and disposals of assets and companies, financial restructuring, corporate strategy, share issuances, dividends, and other returns to shareholders. Specific Board approval is required for any investments or expenditures exceeding \$5 million.

CG Guideline 1.5

CG Guideline 1.2

All directors must objectively take decisions in the interests of the company.

CG Guideline 1.3

If authority to make decisions on certain board matters is delegated by the Board to any Board Committee, such delegation should be disclosed.

The Board objectively takes decisions in the interests of the Group. The Board has delegated specific responsibilities to four Committees, namely the Audit, Nomination, Remuneration and Risk Committees. Information on each of the four Committees is set out below. The Board accepts that while these Committees have the authority to examine particular issues and will report back to the Board with their decisions and/or recommendations, the ultimate responsibility on all matters lies with the entire Board.

CG Guideline 1.2 and 1.3

CG Guideline 1.4

The Board should meet regularly and as warranted by particular circumstances, as deemed appropriate by the board members. Companies are encouraged to amend their Articles of Association to provide for telephonic and video-conference meetings. The number of board and board committee meetings held in the year, as well as the attendance of every board member at these meetings, should be disclosed in the company's annual report.

The Board meets at least six times a year. Fixed and optional meetings are scheduled at the start of each year and optional meetings convened as scheduled only when there are matters requiring the Board's decision at the scheduled time. Ad hoc meetings are called when there are pressing matters requiring the Board's consideration and decision in between the scheduled meetings. The Board also schedules an annual Board Strategy meeting to discuss strategic issues.

CG Guideline 1.4

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

For the financial year ended 31 December 2011

The Articles of Association of the Company allow directors to participate in a Board meeting by telephone conference or video-conference whereby all persons participating in the meeting are able to communicate as a group, without requiring the directors' physical presence at the meeting. The number of Board and Board Committee meetings held in the current financial year and the attendance of directors during these meetings is as follows:

CG Guideline 1.4

| | Position | Board of Directors | | Audit Committee | | Nomination Committee | | Remuneration Committee | | Risk Committee | | | | | |
|------------------------------------|----------|-----------------------------------|----------|-----------------------------------|----------|-----------------------------------|----------|-----------------------------------|----------|-----------------------------------|----------|---|---|---|---|
| | | Number of meetings ⁽¹⁾ | | Number of meetings ⁽¹⁾ | | Number of meetings ⁽¹⁾ | | Number of meetings ⁽¹⁾ | | Number of meetings ⁽¹⁾ | | | | | |
| | | Held | Attended | Held | Attended | Held | Attended | Held | Attended | Held | Attended | | | | |
| Executive Director | | | | | | | | | | | | | | | |
| Ang Boon Chew | M | 10 | 10 | - | - | - | - | - | - | - | - | - | - | - | |
| Andrew Lloyd ⁽²⁾ | - | 1 | 1 | - | - | - | - | - | - | - | - | - | - | - | |
| Ran Jedwin Gervasio ⁽³⁾ | M | - | - | - | - | - | - | - | - | - | - | M | 3 | 3 | |
| Non-executive Director | | | | | | | | | | | | | | | |
| Tan Cheng Eng | C | 10 | 10 | M | 7 | 7 | - | - | - | C | 2 | 2 | - | 3 | 3 |
| David Grey | M | 10 | 7 | M | 7 | 6 | - | - | - | - | - | - | - | - | - |
| Balachandran Nair | M | 10 | 8 | C | 7 | 7 | - | - | - | M | 2 | 1 | - | - | - |
| Michael Philip White | M | 10 | 10 | M | 7 | 7 | C | 3 | 3 | - | - | - | - | - | - |
| Wan Oon Kee | M | 10 | 9 | M | 7 | 5 | M | 3 | 2 | - | - | - | C | - | - |
| Lee Chee Wai ⁽⁴⁾ | M | 7 | 6 | - | - | - | M | 2 | 2 | M | 1 | 1 | M | 3 | 3 |
| Selamat Baharuddin ⁽⁵⁾ | - | 3 | 3 | - | 4 | 3 | - | 1 | 1 | - | - | - | - | - | - |

Denotes:

C – Chairman as at 19 March 2012

M – Member as at 19 March 2012

⁽¹⁾ Number of meetings held/attended during the financial year/period from 1 January 2010 (or from date of appointment of Director, where applicable) to 31 December 2011

⁽²⁾ Resigned on 5 February 2012

⁽³⁾ Appointed on 26 February 2012

⁽⁴⁾ Appointed on 1 May 2011

⁽⁵⁾ Resigned on 1 May 2011

CG Guideline 1.6

Every director should receive appropriate training (including his or her duties as a director and how to discharge those duties) when he is first appointed to the Board. This should include an orientation program to ensure that incoming directors are familiar with the company's business and governance practices. It is equally important that directors should receive further relevant training, particularly on relevant new laws, regulations and changing commercial risks, from time to time.

CG Guideline 1.7

Upon appointment of each director, companies should provide a formal letter to the director, setting out the director's duties and obligations.

Commentary 1.8

The company is encouraged to provide training for first-time directors in areas such as accounting, legal and industry-specific knowledge.

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

For the financial year ended 31 December 2011

A formal letter is provided to each director upon his appointment, setting out the director's duties and obligations. The Group also conducts an orientation programme for new directors to familiarise them with the business activities of the Group, its strategic direction and corporate governance practices. A manual containing the Group's policies and procedures relating to its business, corporate governance, interests in securities, and price-sensitive information, is updated yearly and provided to each director. To keep pace with new laws, regulations, changing commercial risks and accounting standards, all directors attend specifically tailored training conducted by professionals at least annually. Directors are also encouraged to attend, at the Group's expense, relevant and useful seminars for their continuing education and skills improvement courses that are conducted by external organisations. The Company Secretary will bring to directors' attention, information on seminars that may be of relevance or use to them.

CG Guidelines 1.6 and 1.7

Commentary 1.8

Principle 2: Board Composition and Guidance

There should be a strong and independent element on the Board, which is able to exercise objective judgment on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

CG Guideline 2.1

There should be a strong and independent element on the Board, with independent directors making up at least one-third of the Board. An "independent" director is one who has no relationship with the company, its related companies¹ or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the company. Examples of such relationships, which would deem a director not to be independent, include:

- (a) a director being employed by the company or any of its related companies for the current or any of the past three financial years;
- (b) a director who has an immediate family member² who is, or has been in any of the past three financial years, employed by the company or any of its related companies as a senior executive officer whose remuneration is determined by the remuneration committee;
- (c) a director, or an immediate family member, accepting any compensation from the company or any of its subsidiaries other than compensation for board service for the current or immediate past financial year; or
- (d) a director, or an immediate family member, being a substantial shareholder of or a partner in (with 5% or more stake), or an executive officer of, or a director of any for-profit business organisation to which the company or any of its subsidiaries made, or from which the company or any of its subsidiaries received, significant payments in the current or immediate past financial year. As a guide, payments³ aggregated over any financial year in excess of S\$200,000 should generally be deemed significant.

CG Guideline 2.2

The relationships set out above are not intended to be exhaustive, and are examples of situations which would deem a director to be not independent. If the company wishes, in spite of the existence of one or more of these relationships, to consider the director as independent, it should disclose in full the nature of the director's relationship and bear responsibility for explaining why he should be considered independent.

¹ A related company in relation to a company includes its subsidiary, fellow subsidiary, or parent company.

² As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, stepchild, brother, sister and parent.

³ Payments for transactions involving standard services with published rates or routine and retail transactions and relationships (for instance credit card or bank or brokerage or mortgage or insurance accounts or transactions) will not be taken into account, unless special or favorable treatment is accorded.

PwC Holdings Ltd and its Subsidiaries

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The Board comprises eight members, six of whom are non-executive directors (including the Chairman). All non-executive directors, except for Mr David Grey who is an Executive Director of PwC Global Limited, the ultimate holding company of the Group, are independent i.e., they have no relationship with the Company, its related companies or their officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent business judgment with a view to the best interests of the Group, and they are able to exercise objective judgment on corporate affairs independently from Management.

Principle 2,
CG Guidelines 2.1 , 2.2

CG Guideline 2.4

The Board should comprise directors who as a group provide core competencies such as accounting or finance, business or management experience, industry knowledge, strategic planning experience and customer based experience or knowledge.

As a group, the directors bring with them a broad range of industry knowledge, expertise and experience in areas such as accounting, finance, business and management, strategic planning and customer service relevant to the direction of a large, expanding group. Mr Tan Cheng Eng and Mr Balachandran Nair are trained in finance and management. In addition, Mr Ang Boon Chew has experience, specifically in the electrical component parts industry, the core business of the Group. A brief description of the background of each director is presented in the "Board of Directors" section of this annual report.

CG Guideline 2.3

The Board should examine its size and, with a view to determining the impact of the number upon effectiveness, decide on what it considers an appropriate size for the Board, which facilitates effective decision making. The Board should take into account the scope and nature of the operations of the company.

The Board reviews the size of the Board on an annual basis, and considers the present Board size as appropriate for the current scope and nature of the Group's operations. As independent and non-executive directors make up almost two-thirds of the Board, no individual or group is able to dominate the Board's decision-making process. There is also balance in the Board because of the presence of independent, non-executive directors of the calibre necessary to carry sufficient weight in Board decisions. Although all the directors have an equal responsibility for the Group's operations, the role of these independent non-executive directors is particularly important in ensuring that the strategies proposed by Management are constructively challenged, fully discussed and examined, and take account of the long term interests, not only of the shareholders, but also of employees, customers, suppliers and the many communities in which the Group conducts business.

Principle 2,
CG Guideline 2.3

CG Guideline 2.1

Commentary 3.3

Companies should appoint an independent non-executive director to be the lead independent director and he/she should be available to shareholders where they have concerns which contact through the normal channels of the Chairman, Chief Executive Officer or Finance Director has failed to resolve or for which such contact is inappropriate.

PwC Holdings Ltd and its Subsidiaries

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The Board appointed Mr Balachandran Nair to act as the lead Independent Non-executive Director. Shareholders with concerns may contact him directly, when contact through the normal channels via the Chairman, Chief Executive Officer (“CEO”) or Finance Director has failed to provide satisfactory resolution, or when such contact is inappropriate.

Commentary 3.3

CG Guideline 2.5

Non-executive directors should:

- (a) constructively challenge and help develop proposals on strategy; and
- (b) review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.

Commentary 2.6

To facilitate a more effective check on management, non-executive directors are encouraged to meet regularly without management present.

Mr Balachandran Nair leads and co-ordinates the activities of the non-executive directors of the Group and aids the non-executive directors to constructively challenge and help develop proposals on strategy, review the performance of management in meeting agreed goals and objectives, and monitor the reporting of performance. The non-executive directors meet regularly on their own without Management present.

CG Guidelines 2.5,
Commentary 2.6

Whilst the Company is controlled by PwC Corporate Limited, its immediate holding company, the investment of minority shareholders is fairly represented through the representation of independent directors.

Principle 3: Chairman and Chief Executive Officer

There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company’s business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

CG Guideline 3.1

The Chairman and Chief Executive Officer (“CEO”) should in principle be separate persons, to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The division of responsibilities between the Chairman and CEO should be clearly established, set out in writing and agreed by the Board. In addition, companies should disclose the relationship between the Chairman and CEO where they are related to each other (i.e. be of the same immediate family).

PwC Holdings Ltd and its Subsidiaries

Reference

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The roles of the Chairman and CEO are separate to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision making. The Chairman, Mr Tan Cheng Eng is a Non-executive Director responsible for leading the Board and facilitating its effectiveness. He promotes high standards of corporate governance on the Board and within the Group, and is free to act independently in the best interests of the Group. The CEO, Mr Ang Boon Chew, is an Executive Director responsible for the business direction and operational decisions of the Group. The Chairman and CEO are not related. The division of responsibilities between the Chairman and the CEO has been set out in a set of Guidelines reviewed and endorsed by the Board.

CG Guidelines 3.1

CG Guideline 3.2

The Chairman should:

- (a) lead the Board to ensure its effectiveness on all aspects of its role and set its agenda;
- (b) ensure that the directors receive accurate, timely and clear information;
- (c) ensure effective communication with shareholders;
- (d) encourage constructive relations between the Board and Management;
- (e) facilitate the effective contribution of non-executive directors in particular;
- (f) encourage constructive relations between executive directors and non-executive directors; and
- (g) promote high standards of corporate governance.

The responsibilities set out above provide guidance and should not be taken as a comprehensive list of all the duties and responsibilities of a Chairman.

The Chairman ensures that Board meetings are held as and when necessary. He leads the Board to ensure its effectiveness and approves the agenda of each Board meeting in consultation with the CEO. The Chairman reviews most Board papers before they are presented to the Board and ensures that Board members are provided with accurate, timely and clear information. Management staff who have prepared the papers, or who can provide additional insight into the matters to be discussed, are invited to present the paper or attend at the relevant time during the Board meeting. The Chairman monitors communications and relations between the Company and its shareholders, between the Board and Management, and between independent and non-independent directors, with a view to encourage constructive relations and dialogue amongst them. The Chairman works to facilitate the effective contribution of non-executive directors. The foregoing responsibilities of the Chairman are included in the abovementioned guidelines endorsed by the Board.

CG Guideline 3.2

PwC Holdings Ltd and its Subsidiaries

Reference

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Principle 4

There should be a formal and transparent process for the appointment of new directors to the Board.

CG Guideline 4.1

Companies should establish a Nominating Committee (“NC”) to make recommendations to the Board on all board appointments. The NC should comprise at least three directors, a majority of whom, including the Chairman, should be independent. In addition, the NC Chairman should be a director who is not, or who is not directly associated with⁴, a substantial shareholder (with interest of 5% or more in the voting shares of the company). Its membership should be disclosed in the annual report. The NC should have written terms of reference that describe the responsibilities of its members.

Nomination Committee

The Nomination Committee comprises the following non-executive and independent directors:

CG Guidelines 4.1

Mr Michael Philip White (Chairman)
Madam Wan Oon Kee
Mr Lee Chee Wai

The Nomination Committee was set up on 1 April 2005. The Committee held three meetings during the financial year. All members of this Committee are independent non-executive directors. The Chairman of the Nomination Committee is neither a substantial shareholder of the Company nor directly associated with a substantial shareholder of the Company.

CG Guidelines 4.1

The Nomination Committee has a written Charter endorsed by the Board that sets out its duties and responsibilities. Amongst them, the Nomination Committee is responsible for making recommendations to the Board on all board appointments.

CG Guidelines 4.1

CG Guideline 4.5

A description of the process for the selection and appointment of new directors to the Board should be disclosed. This should include disclosure on the search and nomination process.

In its search, nomination and selection process for new directors, the Nomination Committee identifies the key attributes that an incoming director should have, based on a matrix of the attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the Nomination Committee taps on the resources of directors’ personal contacts and recommendations of potential candidates, and goes through a shortlisting process. If candidates identified from this process are not suitable, executive recruitment agencies are appointed to assist in the search process. Interviews are set up with potential candidates for Nomination Committee members to assess them, before a decision is reached.

⁴ A director will be considered “directly associated” to a substantial shareholder when the director is accustomed or under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of the substantial shareholder.

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

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CG Guideline 4.2

The NC should be charged with the responsibility of re-nomination having regard to the director's contribution and performance (e.g. attendance, preparedness, participation and candour) including, if applicable, as an independent director. All directors should be required to submit themselves for re-nomination and re-election at regular intervals and at least every three years.

The Nomination Committee is responsible for making recommendations to the Board on the re-nomination of directors at regular intervals and at least once every three years for each director, as required by the Articles of Association of the Company. In its deliberations on the re-nomination of existing directors, the Nomination Committee takes into consideration the directors' contribution and performance (including, if applicable, his contribution and performance as an independent director). The assessment parameters include attendance record, preparedness, intensity of participation and candour at meetings of the Board and Committees as well as the quality of intervention and special contributions.

CG Guidelines 4.2

Principle 5: Board Performance

There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

CG Guideline 5.4

Individual evaluation should aim to assess whether each director continues to contribute effectively and demonstrate commitment to the role (including commitment of time for board and committee meetings, and any other duties). The Chairman should act on the results of the performance evaluation, and where appropriate, propose new members be appointed to the Board or seek the resignation of directors, in consultation with the NC.

The Chairman of the Board will give feedback to the Nomination Committee on the appointment of new directors or retirement or resignation of existing directors, following the outcome of an annual performance evaluation of individual directors, and the Nomination Committee will take into consideration his views in this regard.

CG Guidelines 5.4

CG Guideline 4.3

The NC is charged with the responsibility of determining annually if a director is independent, bearing in mind the circumstances set forth in Guideline 2.1 and any other salient factors. If the NC determines that a director who has one or more of the relationships mentioned therein can be considered independent, the company should make such disclosure as stated in Guideline 2.2. Conversely, the NC has the discretion to determine that a director is non-independent even if he does not fall under the circumstances set forth in Guideline 2.1.

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

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The Nomination Committee is also responsible for determining annually, the independence of directors. In doing so, the Nomination Committee takes into account the circumstances set forth in Guideline 2.1 of the 2005 Code and any other salient factors. Following its annual review, the Nomination Committee has endorsed the following independence status of the directors:

CG Guidelines 4.3

Mr Tan Cheng Eng (Independent)
 Mr Ang Boon Chew (Non-independent)
 Mr David Grey (Non-independent)
 Dr Ran Jedwin Gervasio (Non-independent)
 Mr Balachandran Nair (Independent)
 Mr Michael Philip White (Independent)
 Madam Wan Oon Kee (Independent)
 Mr Lee Chee Wai (Independent)

CG Guideline 4.4

When a director has multiple board representations, he or she must ensure that sufficient time and attention is given to the affairs of each company. The NC should decide if a director is able to and has been adequately carrying out his/her duties as a director of the company. Internal guidelines should be adopted that address the competing time commitments that are faced when directors serve on multiple boards.

The Nomination Committee is satisfied that sufficient time and attention are being given by the directors to the affairs of the Group, notwithstanding that some of the directors have multiple board representations, and there is presently no need to implement internal guidelines to address their competing time commitments. This matter is reviewed on an annual basis by the Nomination Committee.

CG Guidelines 4.4

CG Guideline 5.1

Every Board should implement a process to be carried out by the NC for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual director to the effectiveness of the Board. This assessment process should be disclosed in the annual report.

CG Guideline 5.2

The NC should decide how the Board's performance may be evaluated and propose objective performance criteria. Such performance criteria, which allow for comparison with industry peers, should be approved by the Board and address how the Board has enhanced long term shareholders' value. These performance criteria should not be changed from year to year, and where circumstances deem it necessary for any of the criteria to be changed, the onus should be on the Board to justify this decision.

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The Board has implemented a process for assessing its effectiveness as a whole and for assessing the contribution by each director to the effectiveness of the Board. A consulting firm specialising in board evaluation and human resources was appointed by the Nomination Committee to help to design and implement the process. This is the fifth year in which this board evaluation process has been implemented.

CG Guidelines 5.1 and 5.2

CG Guideline 5.3

In addition to any relevant performance criteria which the Board may propose, the performance evaluation should also consider the company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index and a benchmark index of its industry peers.

Commentary 5.5

Other performance criteria that may be used include return on assets ("ROA"), return on equity ("ROE"), return on investment ("ROI") and economic value added ("EVA") over a longer-term period.

The collective assessment process comprises two parts: a qualitative assessment of the functioning of the Board, and a review of selected financial and quantitative performance indicators (including the Company's share price performance over a five-year period vis-à-vis the Singapore Straits Times Index, return on assets, return on equity, economic value added and profitability on capital employed, each compared with a selected set of listed industry peers for benchmarking purposes). The qualitative assessment utilizes a confidential questionnaire (covering areas such as the effectiveness of the Board in its monitoring role and the attainment of the strategic and long term objectives set by the Board, including the enhancement of shareholders' value) which is completed by each director individually. Both sets of performance criteria have been endorsed by the Nomination Committee and the Board. The completed qualitative assessment questionnaires are submitted to the consulting firm, which prepares a comprehensive confidential report for the Nomination Committee's discussion. The results and conclusions are then presented to the Board by the Nomination Committee together with the consultant and an action plan is drawn up to address any areas for improvement.

CG Guidelines 5.1, 5.2
and 5.3
Commentary 5.5

CG Guidelines 5.1 and 5.4

As above

The assessment of individual directors is done through both self-assessment as well as peer-assessment, in each case through a confidential questionnaire completed by directors individually. The assessment parameters for such individual evaluation include attendance and contributions during Board meetings as well as commitment to their role as directors. The questionnaires are submitted to the consulting firm which prepares a confidential report for each director. The Chairman of the Board together with the Chairman of the Nomination Committee then meet with each individual director to discuss his report and areas for improvement. Where the individual director being assessed is the Chairman of the Board, the Chairman of the Nomination Committee meets with him alone, and vice versa.

CG Guideline 5.1 and 5.4

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

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Principle 6: Access to Information

In order to fulfil their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

CG Guideline 6.1

Management has an obligation to supply the Board with complete, adequate information in a timely manner. Relying purely on what is volunteered by Management is unlikely to be enough in all circumstances and further enquiries may be required if the particular director is to fulfil his or her duties properly. Hence, the Board should have separate and independent access to the company's senior management.

CG Guideline 6.2

Information provided should include background or explanatory information relating to matters to be brought before the Board, copies of disclosure documents, budgets, forecasts and monthly internal financial statements. In respect of budgets, any material variance between the projections and actual results should also be disclosed and explained.

All directors receive a set of Board papers prior to the Board meeting. This is generally issued to them at least five working days prior to the meeting in sufficient time to enable the directors to obtain further explanations, where necessary, in order to be briefed properly and prepare for the meeting. The Board papers include, among others, the following documents and details:

CG Guidelines 6.1

- Background or explanations on matters brought before the Board for decision or information, including issues being dealt with by Management, and relevant budgets, forecasts and projections. In respect of budgets, any material variance between the projections and actual results is disclosed and explained to the Board;
- Minutes of the previous Board meeting;
- Minutes of meetings of all Committees of the Board held since the previous Board meeting;
- Major operational and financial issues;
- Statistics on customer satisfaction;
- Statistics on key performance indicators.

CG Guidelines 6.2

CG Guideline 10.2

The Management should provide all members of the Board with management accounts which present a balanced and understandable assessment of the company's performance, position and prospects on a monthly basis.

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As part of good corporate governance, key matters requiring decision are reserved for resolution at Board meetings rather than by circulation to facilitate discussion. Key analysts' reports on the Group are forwarded to the directors on an ongoing basis. In addition, the Board receives from Management monthly management accounts which present a balanced and understandable assessment of the Group's performance, position and prospects. The latest set of management accounts circulated is tabled for discussion at each Board meeting in case directors have any queries on them.

CG Guidelines 10.2

The directors have separate and independent access to the Group's senior management, including the CEO, the Finance Director and other key Management, as well as the Group's internal and external auditors. Queries by individual directors on circulated papers are directed to Management who will respond accordingly. Where relevant, directors' queries and Management's responses are circulated to all Board members for their information.

CG Guidelines 6.1

CG Guideline 6.5

The Board should have a procedure for directors, either individually or as a group, in the furtherance of their duties, to take independent professional advice, if necessary, at the company's expense.

The Board has also approved a procedure for directors, whether as a full Board or in their individual capacity, to take independent professional advice, where necessary in the furtherance of their duties, at the Group's expense.

CG Guidelines 6.5

CG Guideline 6.3

Directors should have separate and independent access to the company secretary. The role of the company secretary should be clearly defined and should include responsibility for ensuring that board procedures are followed and that applicable rules and regulations are complied with. Under the direction of the Chairman, the company secretary's responsibilities include ensuring good information flows within the Board and its committees and between senior management and non-executive directors, as well as facilitating orientation and assisting with professional development as required. The company secretary should attend all board meetings.

All directors have separate and independent access to the advice and services of the Company Secretary. The Board has approved a set of guidelines defining the role and responsibilities of the Company Secretary. The Company Secretary attends all meetings of the Board and ensures that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary also attends all meetings of the Audit Committee, Remuneration Committee and Nomination Committee. Under the direction of the Chairman, the Company Secretary is responsible for ensuring good information flows within the Board and its Committees and between senior management and non-executive directors, as well as facilitating orientation and assisting with professional development as required.

CG Guidelines 6.3

CG Guideline 6.4

The appointment and the removal of the company secretary should be a matter for the Board as a whole.

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Reference

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Under the Articles of Association of the Company, the decision to appoint or remove the Company Secretary can only be taken by the Board as a whole.

CG Guidelines 6.4

(B) REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The Remuneration Committee is responsible for ensuring a formal and transparent procedure for developing policy on executive remuneration, and for fixing the remuneration packages of individual directors and senior management.

Principle 7

CG Guideline 7.1

The Board should set up a Remuneration Committee ("RC") comprising entirely of non-executive directors, the majority of whom, including the Chairman, should be independent. This is to minimise the risk of any potential conflict of interest.

Remuneration Committee

The Remuneration Committee comprises the following non-executive and independent directors:

CG Guidelines 7.1
SCX 852(1)(A)

Mr Tan Cheng Eng (Chairman)
Mr Balachandran Nair
Mr Lee Chee Wai

CG Guideline 7.2

The RC will recommend to the Board a framework of remuneration, and the specific remuneration packages for each director and the CEO (or executive of equivalent rank) if the CEO is not a director. The RC's recommendations should be submitted for endorsement by the entire Board. The RC should cover all aspects of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, options, and benefits in kind. The RC will also review the remuneration of senior management.

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The principal responsibilities of the Remuneration Committee are:

1. Recommending to the Board for endorsement, a framework for computation of directors' fees of the Board, as well as remuneration of executive directors and senior management of Senior Vice President grade or its equivalent and above. For executive directors and other senior management, the framework covers all aspects of executive remuneration (including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind);
2. Recommending the specific remuneration packages for each director and other senior management of Senior Vice President grade or its equivalent and above; and
3. Administering the PwC Employee Share Option Scheme.

CG Guideline 7.2

Commentary 7.3

If necessary, the RC should seek expert advice inside and/or outside the company on remuneration of all directors.

In framing the Group's remuneration policy as described above, the Remuneration Committee from time to time seeks advice from external consultants as well as confidentially from selected senior management, including the Director (Human Resource), at its discretion. The remuneration policy recommended by the Remuneration Committee is submitted for approval by the Board.

Commentary 7.3

CG Guideline 7.2

Principle 8: Level and Mix Of Remuneration

The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

Commentary 8.5

In setting remuneration packages, the company should be aware of pay and employment conditions within the industry and in comparable companies. But they should use such comparison with caution, in view of the risk of an upward ratchet of remuneration levels with no corresponding improvements in performance.

The remuneration package of executive directors and other senior management of senior vice president grade or its equivalent and above ("senior management") consists of the following components:

(a) Fixed Component

Fixed pay comprises basic salary, statutory employer's contributions to the Central Provident Fund, Annual Wage Supplement ("AWS") and fixed allowances. Eligibility for AWS and fixed allowances will depend on the length of service. To ensure that key executives' remuneration is consistent and comparable with market practice, the Remuneration Committee also regularly benchmarks remuneration components against those of comparable companies, while continuing to be mindful that there is a general correlation between increased remuneration and performance improvements.

Commentary 8.5

PwC Holdings Ltd and its Subsidiaries

Reference

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CG Guideline 8.1

The performance-related elements of remuneration should be designed to align interests of executive directors with those of shareholders and link rewards to corporate and individual performance. There should be appropriate and meaningful measures for the purpose of assessing executive directors' performance.

(b) Variable Component

This component comprises variable bonus based on the Group's and the individual's performance, as well as monthly variable component of the basic salary. To link rewards to performance, the more senior the executive is in the Group, the higher is the percentage of the variable component against total compensation. A comprehensive and structured assessment of the performance of senior management, which includes 360 degree-assessments and measuring their performance against selected key performance indicators, is undertaken each year. Bonuses payable to senior management are reviewed by the Remuneration Committee and approved by the Board to ensure alignment of their interests with those of shareholders.

CG Guidelines 8.1

(c) Benefits

Benefits provided are consistent with market practice and include medical benefits, flexible benefits, car allowance, club benefits and housing subsidy. Eligibility for these benefits will depend on individual salary grade and length of service.

CG Guideline 8.4

Long-term incentive schemes are generally encouraged. The RC should review whether directors should be eligible for benefits under long-term incentive schemes. The costs and benefits of long-term incentive schemes should be carefully evaluated. In normal circumstances, offers of shares or granting of options or other forms of deferred remuneration should vest over a period of time. The use of vesting schedules, whereby only a portion of the benefits can be exercised each year, is also strongly encouraged. Directors should be encouraged to hold their shares beyond the vesting period, subject to the need to finance any costs of acquisition and associated tax liability.

CG Guideline 9.4

The report should also contain details of employee share schemes to enable their shareholders to assess the benefits and potential cost to the companies. The important terms of the share schemes, including the potential size of grants, methodology of valuing stock options, exercise price of options that were granted as well as outstanding, whether the exercise price was at the market or otherwise on the date of grant, market price on the date of exercise, the vesting schedule, and the justifications for the terms adopted, should be disclosed.

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(d) Share Options

Executive directors and senior management with more than three years of service are eligible for the grant of options under the PwC Employee Share Option Scheme. The options granted will vest only on completion of another two years of service with the Group, commencing from the grant date. Executive directors and senior management are encouraged to hold their shares beyond the vesting period, subject to the need to finance any costs of acquisition and associated tax liability. More information on the PwC Employee Share Option Scheme is set out in the Directors' Report.

CG Guidelines 8.4 and 9.4

CG Guideline 8.3

In the case of service contracts, there should be a fixed appointment period for all executive directors. In any case, service contracts should not be excessively long or with onerous removal clauses. The RC should review what compensation commitments the directors' contracts of service, if any, would entail in the event of early termination. The RC should aim to be fair and avoid rewarding poor performance.

Commentary 8.6

Notice periods in service contracts should be set at a period of six months or less. If it is necessary to offer longer notice periods to new directors recruited from outside, such periods should reduce to six months or less after the initial notice period.

The service contracts for executive directors are for fixed appointment periods which are not excessively long and they do not contain onerous removal clauses. Notice periods are generally six months or less in service contracts for senior management. The Remuneration Committee is responsible for reviewing the compensation commitments arising from directors' contracts of service in the event of early termination.

CG Guidelines 8.3
and Commentary 8.6

PwC Holdings Ltd and its Subsidiaries

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The fees and allowances proposed to be paid to Directors for the current financial year are determined based on the same formula applied in the previous year as follows:

| TYPE OF APPOINTMENT | PROPOSED FEE |
|--|--------------|
| Board of directors | \$ |
| Basic Fee | 50,000 |
| Board Chairman Allowance | 32,000 |
| Audit committee | |
| Committee Chairman's Allowance | 27,000 |
| Member's Allowance | 13,500 |
| Other board committees | |
| Committee Chairman's Allowance | 13,500 |
| Member's Allowance | 9,000 |
| Attendance fee | |
| Per Board meeting in Singapore | 1,000 |
| Per Audit Committee meeting in Singapore | 800 |
| Per Other Board Committee meeting in Singapore | 600 |
| Per Board meeting overseas | 3,000 |
| Per Audit Committee meeting overseas | 2,000 |
| Per Other Board Committee meeting overseas | 1,500 |

Besides the basic fee, every Director will receive:

- The Chairman's allowance if he is Chairman of the Board;
- The relevant allowance (depending on whether he was Chairman or a member of the relevant Board Committee) for each position he holds in the Board Committee during the financial year; and
- The relevant attendance fee for each Board and Board Committee meeting he attends during the financial year.

If he occupies a position for part of the financial year, the fee or allowance payable will be prorated accordingly.

Guidance notes

Proposed fees

Corporate Governance Guideline 8.2 provides guidance that the remuneration of non-executive directors should be appropriate to their level of contribution, taking into account factors such as their effort and time spent and responsibilities. In this example, the fee and allowance formula are applied consistently to all directors, executive and non-executive. The practice in the market is varied; there are companies which remunerate executive directors with directors' fees on the basis that they receive it for services rendered in the capacity of director, and companies which do not on the basis that they are holding the directorship in their capacity as executives and thus are already remunerated in their wages.

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The remuneration of directors and key executives is set out below. The disclosure is provided to enable investors to understand the link between the remuneration paid to the directors and key executives, and corporate and individual performance.

CG Guidelines 8.2

DISCLOSURE ON REMUNERATION

Principle 9: Disclosure on Remuneration

Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

CG Guideline 9.1

The company should report to the shareholders each year on the remuneration of directors and at least the top 5 key executives (who are not also directors) of the company. This annual remuneration report should form part of, or be annexed to the company's annual report of its directors. It should be the main vehicle through which the company reports to shareholders on remuneration matters. The members of the RC should be listed in the report.

CG Guideline 9.2

The report should set out the names of directors and at least the top 5 key executives (who are not also directors) earning remuneration which falls within bands of S\$250,000. There will be a breakdown (in percentage terms) of each director's remuneration earned through base/fixed salary, variable or performance-related income/bonuses, benefits in kind, and stock options granted and other long-term incentives. Companies are however encouraged, as best practice, to fully disclose the remuneration of each individual director.

CG Guideline 9.4

As above

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Principle 9,
CG Guidelines 9.1, 9.2
and 9.4

| | Basic salary ⁽¹⁾ \$'000 | Fees ⁽¹⁾ \$'000 | Bonus \$'000 | Benefits- in-kind \$'000 | Termi- nation benefit \$'000 | Fair value share of options granted ⁽²⁾ \$'000 | Total 2011 \$'000 | Total 2010 \$'000 | Total fair value of options granted in ⁽¹⁰⁾ 2011 2010 \$'000 \$'000 | |
|--|--|-------------------------------|-----------------|--------------------------------|---------------------------------------|---|-------------------------|-------------------------|--|-----|
| <u>Executive Directors</u> | | | | | | | | | | |
| Ang Boon Chew | 284 | 32 ⁽³⁾ | 417 | 36 | - | 86 | 855 | 748 | 100 | 72 |
| Andrew Lloyd ⁽⁴⁾ | 274 | 32 ⁽³⁾ | 355 | 13 | - | - | 674 | 686 | - | - |
| Ran Jedwin Gervasio ⁽⁵⁾ | - | - | - | - | - | - | - | - | - | - |
| <u>Non-executive Directors</u> | | | | | | | | | | |
| Tan Cheng Eng | - | 95 ⁽³⁾ | - | - | - | - | 95 | 92 | - | - |
| David Grey | - | 70 ^{(3),(6)} | - | - | - | - | 70 | 68 | - | - |
| Balachandran Nair | - | 65 ⁽³⁾ | - | - | - | - | 65 | 60 | - | - |
| Michael Philip White | - | 56 | - | - | - | - | 56 | 27 | - | - |
| Wan Oon Kee | - | 44 | - | - | - | - | 44 | 42 | - | - |
| Lee Chee Wai ⁽⁷⁾ | - | 41 | - | - | - | - | 41 | - | - | - |
| Selamat Baharuddin | - | 30 | - | - | 100 ⁽⁸⁾ | - | 130 | 78 | - | - |
| Francis Wong | - | - | - | - | - | - | - | 48 | - | - |
| | 558 | 465 | 772 | 49 | 100 | 86 | 2,030 | 1,849 | 100 | 72 |
| <u>Key Management Personnel</u> | | | | | | | | | | |
| Ran Jedwin Gervasio ⁽⁵⁾ | 214 | - | 232 | 18 | - | 59 | 523 | - | 65 | 53 |
| Henry Heng | 177 | - | 218 | 13 | - | 52 | 460 | 188 | 45 | 59 |
| Raju Samy | 180 | - | 196 | 10 | - | 41 | 427 | 150 | 40 | 42 |
| Abdul Rahmat | 200 | - | 178 | 9 | - | 32 | 419 | 280 | 35 | 29 |
| Tracy Phung ⁽⁹⁾ | 228 | - | 132 | 7 | - | 30 | 397 | - | 32 | - |
| | 999 | - | 956 | 57 | - | 214 | 2,226 | 618 | 217 | 183 |

Denotes:

⁽¹⁾ Includes allowances and contributions to Central Provident Fund (where applicable)⁽²⁾ Refers to the expense on share options granted to the executive directors/senior management recognised in the financial statements.⁽³⁾ Includes fees paid/payable for directorship in subsidiary/subsidiaries.⁽⁴⁾ Resigned as a director on 5 February 2012.⁽⁵⁾ Joined the Group as a key executive on 1 March 2011 (upon the acquisition of PwC Components (Philippines) Pte Ltd) and was appointed as a director of PwC Holdings Ltd on 26 February 2012.⁽⁶⁾ Fees paid/payable to PwC Global Limited, ultimate holding company and the director's employer company.⁽⁷⁾ Appointed as a director on 1 May 2011.⁽⁸⁾ In appreciation of Mr Selamat Baharuddin's service to the Group for the past 15 years, the Board approved the payment of S\$100,000 as termination benefits to him. He resigned on 1 May 2011.⁽⁹⁾ Joined the Group as a key executive on 1 January 2011.⁽¹⁰⁾ Refers to the total fair value of share options granted to the executive directors/senior management during the financial year. The fair value of the options was estimated using the Binomial Option Pricing model.

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CG Guideline 9.3

For transparency, the report should disclose the same details of the remuneration of employees who are immediate family members⁵ of a director or the CEO, and whose remuneration exceeds S\$150,000 during the year. This can be done on a no-name basis with clear indication of which director or the CEO the employee is related to.

An immediate family member of Mr Ang Boon Chew, the CEO and an Executive Director of PwC Holdings Ltd, has an employment relationship with a subsidiary, and has received remuneration amounting to S\$152,000 in that capacity during this financial year.

CG Guidelines 9.3

(C) ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

CG Guideline 10.1

The Board's responsibility to provide a balanced and understandable assessment of the company's performance, position and prospects extends to interim and other price sensitive public reports, and reports to regulators (if required).

The Board is responsible for providing a balanced and understandable assessment of the Group's performance, position and prospects when presenting interim and other price sensitive public reports and reports to regulators (if required).

CG Guidelines 10.1

Management provides to members of the Board for their endorsement, annual budgets (capital, operating and manpower establishment), rolling three-year business plans and key performance indicator targets for key management personnel.

Commentary notes

"Meet the bank" policy

As a best practice, the CEO should arrange an annual meeting with all banks at a senior (not trading) level, to confirm operations are "within mandate" and confirm with the senior bank representatives the CEO's understanding of the types and sizes of transactions being undertaken. There should also be a physical meeting arranged between the Chairman and each bank at the start of new relationships.

During the financial year, the CEO has met up with the senior bank representatives of all banks that the Group has transactions with, to confirm his understanding of the types and sizes of transactions being undertaken by the Group and that all operations are "within mandate". In addition, the Chairman also attended two separate meetings with Citibank Singapore and Barclays Bank PLC to understand the nature of the new business relationships with the banks before bank mandates were signed with them during the year.

⁵ As defined in the Listing Manual of the Singapore Exchange to mean the spouse, child, adopted child, stepchild, brother, sister and parent.

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(C.1) Audit Committee

Principle 11: Audit Committee

The Board should establish an Audit Committee (“AC”) with written terms of reference which clearly set out its authority and duties.

CG Guideline 11.1

The AC should comprise at least three directors, all non-executive, the majority of whom, including the Chairman, should be independent.

CG Guideline 11.8

The Board should disclose the names of the members of the AC and details of the Committee’s activities in the company’s annual report.

The Audit Committee comprises the following Directors:

CG Guidelines 11.1 and
11.8

Mr Balachandran Nair (Chairman)
Mr Tan Cheng Eng
Mr David Grey
Mr Michael Philip White
Madam Wan Oon Kee

CG Guideline 11.5

The AC should meet with the external auditors, and with the internal auditors, without the presence of the company’s Management, at least annually.

The Audit Committee held seven meetings during the financial year. These meetings were attended by the CEO, Finance Director and Head of Internal Audit Department (“IAD”) at the invitation of the Audit Committee. The Group’s external auditor was also present at the relevant junctures during these meetings. The Committee has also met the external and internal auditors, without any executive of the Group being present, twice during the financial year to:

CA201B(6)
ACGC Guidebook Page 32,
Para 1.2.19 and Page 33,
Para 1.2.21

- obtain feedback on the competency and adequacy of the finance function;
- enquire into the root causes for major audit adjustments and issues; and
- inquire if there are any material weaknesses or control deficiencies over the Group’s financial reporting process and the corresponding effect on the financial statements.

CG Guideline 11.5,
ACGC Guidebook Page
13, Para 1.2.16, Page 102,
Para 1.2.4, Page 76, Para
1.2.7, Page 56, Para 1.2.1
and Page 78, Para 1.2.8.2

All members of this Committee are non-executive directors except for Mr David Grey who is an Executive Director of PwC Global Limited, the ultimate holding company of the Group. All members are independent.

CG Guideline 11.1
CA201B(2)
CA201B(3)

CG Guideline 11.2

The Board should ensure that the members of the AC are appropriately qualified to discharge their responsibilities. At least two members should have accounting or related financial management expertise or experience, as the Board interprets such qualification in its business judgment.

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The Board is of the view that all the members of the Audit Committee are appropriately qualified to discharge their responsibilities. Two members of the Audit Committee, namely Mr Balachandran Nair and Mr Tan Cheng Eng, have the requisite accounting and related financial management expertise and experience. One of the Audit Committee members, Mr Michael Philip White is knowledgeable about Information Technology ("IT") systems and controls and possesses the relevant experience related to the oversight function for risk management.

CG Guideline 11.2, ACGC Guidebook Pages 5 and 6, Para 1.2.4, Page 26, Para 1.2.1, 1.2.2 and Page 23, Para 1.2.32

Guidance notes

1. ACGC Guidebook Pages 5 and 6, Para 1.2.4 provides guidance that the accounting or related financial management expertise or experience possess by at least two AC members could be interpreted as having some or all of the following:
 - The ability to read and understand financial statements, including the Group's balance sheet, income statement and cash flow statement
 - The ability to understand and assess the general application of local or other generally accepted accounting principles
 - The ability to ask pertinent questions about the Group's financial reporting process
 - The ability to effectively challenge Management's assertions on financials and Management's responses when appropriate
 - The ability to understand internal controls and risk factors relevant to the Group's operations, including those relating to complex financial instruments that are in use
 - Experience gained through executive responsibility for a sizeable business including having or having had responsibility for the finance function, such as being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities
 - Education or professional qualifications relating substantially to accounting or finance
 - Experience in working within the areas of corporate finance, financial reporting or accounting
2. ACGC Guidebook Page 23, Para 1.2.32 recommends the AC to consider having a member who is knowledgeable about IT systems and controls or organise a panel of experienced persons to review the IT areas for companies whose key operations are reliant on sophisticated integrated systems.

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(C.2) Roles and responsibilities of the Audit Committee

CG Guideline 11.3

The AC should have explicit authority to investigate any matter within its terms of reference, full access to and co-operation by Management and full discretion to invite any director or executive officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

Principle 11 and CG
Guideline 11.3

CG Guideline 11.4

The duties of the AC should include:

- (a) reviewing the scope and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditors. Where the auditors also supply a substantial volume of non-audit services to the company, the AC should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money;
- (b) reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance;
- (c) reviewing the adequacy of the company's internal controls, as set out in Guideline 12.1;
- (d) reviewing the effectiveness of the company's internal audit function; and
- (e) making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor.

CG Guideline 11.6

The AC should review the independence of the external auditors annually.

CG Guideline 13.3

The AC should ensure that the internal audit function is adequately resourced and has appropriate standing within the company. For the avoidance of doubt, the internal audit function can either be in-house, outsourced to a reputable accounting/auditing firm, or performed by a major shareholder, holding company, parent company or controlling enterprise with an internal audit staff.

CG Guideline 13.4

The AC should, at least annually, ensure the adequacy of the internal audit function.

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The Audit Committee has written Terms of Reference endorsed by the Board, setting out their duties and responsibilities. The Audit Committee is authorised by the Board to investigate any matter within its Terms of Reference and has full access to, and cooperation of Management, with full discretion to invite any director or executive officer to attend its meetings. It has adequate resources to enable it to discharge its functions properly. During the meetings of the Audit Committee held during the financial year, the Committee performed its functions and responsibilities as set out in its Terms of Reference, which include the following:

CG Guidelines 11.4, 11.6, 13.3 and 13.4, CA210B(5)(a)

- Reviewing the scope, approach and results of the audit and its cost effectiveness, and the independence and objectivity of the external auditor;
- Reviewing the nature and extent of the external auditor's non-audit services to the Group as well as the extent of reliance placed by the external auditor on the internal auditor's work, seeking to balance the maintenance of objectivity and value for money;
- Reviewing the significant financial reporting issues and judgments so as to ensure the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance;
- Reviewing the adequacy of the Group's internal financial controls, operational and compliance controls, and risk management policies and systems (hereinafter referred to collectively as "internal controls") at least annually;
- Reviewing the adequacy and effectiveness of the Group's internal audit function at least annually, including the adequacy of internal audit resources and its appropriate standing within the Group, as well as the scope and results of the internal audit procedures;
- Making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;
- Reviewing the external auditor's audit plan, audit report and the external auditor's evaluation of the system of internal accounting controls with the external auditor, as well as the assistance given by Management to the external auditor;
- Reviewing the quarterly, half-yearly and full-year financial reports of the Group, prior to their submission to the Board; and
- Coordinate with the Risk Committee on its oversight on financial reporting matters.

ACGC Guidebook Page 74, Para 1.2.4, Page 75, Para 1.2.5 and Page 49, Para 1.2.26

ACGC Guidebook Page 125, Appendix A2

Principle 12: Internal Controls

The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

CG Guideline 12.1

The AC should review the adequacy of the company's internal financial controls, operational and compliance controls, and risk management policies and systems established by the Management (collectively "internal controls"). The AC should ensure that a review of the effectiveness of the company's internal controls is conducted at least annually. Such review can be carried out by the internal (auditor) and/or public accountants, provided that where the public accountant is also the external auditor of the company, the AC should satisfy itself that the independence of the public accountant is not compromised by any other material relationship with the company.

CG Guidelines 12.1

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(C.3) Internal controls

The Board recognises the importance of sound internal controls and risk management practices to good corporate governance. The Board affirms its overall responsibility for the Group's systems of internal controls and risk management, and for reviewing the adequacy and integrity of those systems on an annual basis. It should be noted that such systems are designed to manage rather than to eliminate the risks. Accordingly, the systems can provide only reasonable, and not absolute, assurance against misstatement of loss, safeguarding of assets, maintenance of proper accounting records, reliability of financial information and compliance with all relevant legislation.

The Audit Committee has considered the five components of internal control namely Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring to gain an understanding of controls at the entity level.

ACGC Guidebook Page 130, Appendix B2

The IAD performs detailed work to assist the Audit Committee in the evaluation of internal controls, financial and accounting matters, compliance, business and financial risk management including controls in critical IT systems. The Audit Committee's responsibilities for the Group's internal controls are complemented by the work of the Risk Management Department, Legal and Compliance Department and Information Systems Security Department.

ACGC Guidebook Page 23, Para 1.2.31

(C.4) Assessing the design and operating effectiveness of internal controls

In assessing the design and operating effectiveness of internal controls, the Audit Committee has established that the following objectives have been addressed:

ACGC Guidebook Page 11, Para 1.2.2

- Assets are safeguarded
- Fraud or errors in the accounting records are prevented or detected
- Accuracy and completeness of accounting records are ensured
- Reliable financial information is prepared in a timely manner
- Compliance with applicable internal policies, laws and regulations relating to the financial reporting process

The CEO and the CFO have signed an undertaking confirming their responsibilities for internal controls, as follows:

ACGC Guidebook Page 12, Para 1.2.6 and 1.2.7

- Are responsible for establishing and maintaining internal controls
- Have designed such internal controls to ensure that material information relating to the Group, its consolidated subsidiaries and equity-accounted associates is disclosed on a timely basis for the purposes of preparing financial statements
- Have evaluated the effectiveness of the Group's internal controls as at the end of the financial year and reported the conclusion to the Audit Committee
- Have disclosed to the Group's external auditor and the Audit Committee
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the company's ability to record, process, summarise, or report financial data and
 - (b) any fraud, whether or not material, that involves Management or other employees who have a significant role in the Group's internal controls; and
 - (c) all material weaknesses and significant deficiencies in internal controls

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CG Guideline 12.2

The Board should comment on the adequacy of the internal controls, including financial, operational and compliance controls, and risk management systems in the company's annual report.

(C.5) Conclusion on adequacy of internal controls

Based on the internal controls established and maintained by the Group, work performed by the internal and external auditors, and reviews performed by management, various Board Committees and the Board, the Audit Committee and the Board are of the opinion that the Group's internal controls, addressing financial, operational and compliance risks were adequate.

Principle 13: Internal Audit

The company should establish an internal audit function that is independent of the activities it audits.

CG Guideline 13.1

The Internal Auditor's primary line of reporting should be to the Chairman of the AC although the Internal Auditor would also report administratively to the CEO.

CG Guideline 13.2

The Internal Auditor should meet or exceed the standards set by nationally or internationally recognised professional bodies including the Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors.

CG Guideline 13.3

As above.

(C.6) Internal Audit

IAD is a department independent of Management. The Head of IAD has a direct and primary reporting line to the Chairman of the Audit Committee, with administrative reporting to the CEO. The IAD assists the Board in monitoring and managing risks and internal controls of the Group.

IAD performs its evaluation of internal controls against the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework (1992).

Principle 13
ACGC Guidebook Page 43,
Para 1.2.4
CG Guideline 13.1, ACGC
Guidebook Page 44, Para
1.2.10 and Page 13, Para
1.2.12

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During the year, IAD has considered the following components of internal control:

1. **Control Environment:** The nature of the Group's Control Environment has a pervasive effect on IAD's assessment of risks. IAD assessed the design of the various elements in the Control Environment to determine the strength of the foundation for all other components of internal control and made appropriate recommendations for improving the Control Environment. For example, IAD has considered the following elements (which has a pervasive effect) and how they have been incorporated into the Group's processes:
 - Communication and enforcement of integrity and ethical values
 - Commitment to competence
 - Participation by those charged with governance
 - Management's philosophy and operating style
 - Organisational structure
 - Assignment of authority and responsibility
 - Human resource policies and practices
2. **Risk Assessment:** IAD performed a risk assessment process of Group's various operations and identified the relevant risks and their significance and assessed their likelihood (including consideration of the results from the risk management process (see C.7 later)).
3. **Control Activities, Information and Communication:** IAD assisted the Group in maintaining effective control by evaluating the effectiveness and efficiency of processes, in particular the adequacy of internal controls over authorization, information processing, physical controls, segregation of duties and performance reviews. IAD has also obtained an understanding of how the Group has responded to risks arising from IT and assessed the adequacy of automated application controls.
4. **Monitoring of controls:** IAD continued to ensure that management adequately monitors internal controls as part of the Control Activities noted above, especially in processes, people and systems.

The Audit Committee approves the internal audit plan and budget and ensures the adequacy of internal audit resources during the first Audit Committee meeting each year. The scope of IAD covers all business and support functions within the Group. Associated companies and joint ventures are also subject to internal audit on a regular basis, either by IAD or by their own internal audit departments (the adequacy of which is reviewed regularly by IAD). The IAD has met the Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors.

CG Guideline 13.4

CG Guideline 13.2

During the year, the IAD conducted its audit reviews based on the approved internal audit plans. Upon completion of each audit assignment, the IAD reported its findings and recommendations to management who would respond on the actions to be taken. The IAD submitted quarterly internal audit summary reports to the Audit Committee on the status of the audit plan and on audit findings and actions taken by management on the findings.

ACGC Guidebook
Page 50, Para 1.2.30

The Head of IAD reports to the Audit Committee on the nature and frequency of training and seminars attended by the IAD staff to enhance their skill sets in specialized areas and professional Internal Audit standards.

ACGC Guidebook
Page 44, Para 1.2.10

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(C.7) Risk Management

As part of Management's efforts in promoting a "risk-aware" culture, risk assessment and evaluation takes place as an integral part of the annual strategic planning cycle conducted at the beginning of each financial year. Having identified the risks arising from strategic business objectives, each business unit is required to document the mitigating actions to manage each significant risk. New areas are introduced for assessment as the business risk profile changes. Information such as the types of risks, the controls and processes for managing risks is subsequently summarised in a risk map, which is reviewed by Management, IAD and Audit Committee. Management also conducted an annual training on risk management and a risk discussion forum to heighten risk awareness for staff at middle management level.

ACGC Guidebook Page 29,
Para 1.2.9

ACGC Guidebook Page 29,
Para 1.2.10

(C.7.1) Risk Committee

The Risk Committee was formed in April 2010 as part of the Group's efforts to strengthen its risk management processes and framework. The Risk Committee comprises the following Directors:

Madam Wan Oon Kee (Chairman)
Dr Ran Jedwin Gervasio
Mr Lee Chee Wai

There were three meetings of the Risk Committee held in 2010. The Risk Committee's role is to:

- Review the adequacy and effectiveness of the Group's risk management process and system;
- Review and approve in broad terms, the risk guidelines and limits including country concentration limits for the Group and the Business Units, which are reviewed annually;
- Review the risk management maturity of the Group, the status of the risk management activities and the significant risks faced by the Group and the Business Units;
- Guide management on the process to identify, evaluate and manage significant risks; and
- Report to the Board and the Audit Committee on material matters, findings and recommendations pertaining to risk management.

(C.7.2) Assessment of Risk Management Framework

The Risk Committee reviewed the adequacy of the Group's risk management framework and conducted four dialogue sessions with Management to understand the process to identify, assess, manage and monitor risks within the Group. In addition, the Risk Committee also engaged an external risk management consultant, ABC LLP, during the year to conduct an independent review on the effectiveness, adequacy and robustness of the Group's risk management policies and processes and make recommendations to enhance the controls over the risk management process.

ACGC Guidebook Page 27,
Para 1.2.4

ACGC Guidebook
Page 29, Para 1.2.7

Management presented semi-annual reports to the Risk Committee and the Board on the Group's risk profile, the status of risk mitigation action plans and updates on the following areas:

ACGC Guidebook Page 28,
Para 1.2.5

- Assessment of the Group's key risks by major business units and risk categories
- Identification of specific "risk owners" who are responsible for the risks identified
- Description of the processes and systems in place to identify and assess risks to the business and how risk information is collected on an ongoing basis
- Ongoing gaps in the risk management process such as system limitations in capturing and measuring risks, as well as action plans to address the gaps
- Status and changes in plans undertaken by Management to manage key risks
- Description of the risk monitoring and escalation processes and also systems in place

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(C.7.3) Risk appetite and tolerance limits

Management has established risk tolerance limits for each key risk by considering the relative importance of the related objectives and aligning risk tolerances with risk appetite. Operating within risk tolerances provides Management with greater assurance that the Group remains within its risk appetite. On an annual basis, Management tests and evaluates the tolerance limits by comparing tolerance calculations with risk retention capacity limits and the level of materiality to assess the Group's resilience to risk.

Based on the above, the Risk Committee concluded that the Group's risk management framework was adequate. Management has appropriately defined and the Risk Committee, together with the Board has approved the risk appetite of the Group.

ACGC Guidebook Page 27,
Para 1.2.4

(C.7.4) "Near-miss" programme

In addition, Management has implemented a "near-miss" programme, with the Audit Committee's endorsement to identify events that indicate system or process weaknesses, which could result in major consequences if not remedied. The objective for such arrangements is to encourage staff to disclose "near-misses" without fear of reprisals. Collection and analysis of such "near-miss" data, together with the subsequent identification of remedial actions are undertaken by a Compliance Manager who reports directly to the Chairman of the Audit Committee.

ACGC Guidebook Page 30,
Para 1.2.12

(C.7.5) Business Continuity Plan

The Board has reviewed and approved the business continuity plan to deal with pandemic situation, information technology failures and loss of business premises so as to mitigate the negative impact on the Group's operation. The approved plan was endorsed by the Audit Committee and addressed the following:

ACGC Guidebook Page 35,
Para 1.2.27

- Identification of critical business functions and its operational arrangement
- Impact on the closure of business operation sites and availability of alternate offices
- Communication with business partners on revised operational protocols
- Measures to reduce spread of a pandemic outbreak
- Crisis management procedures
- Operational continuity plans

Management has conducted semi-annual tests on the business continuity plan and reported the results of these tests to the Board and the Audit Committee.

(C.8) Whistle blowing programme

CG Guideline 11.7

The AC should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The AC's objective should be to ensure that arrangements are in place for the independent investigation of such matters and for appropriate follow up action.

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The Group is committed to a high standard of ethical conduct and adopts a zero tolerance approach to fraud. The Group undertakes to investigate complaints of suspected fraud in an objective manner and has put in place, with the Audit Committee's endorsement, arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The objective for such arrangements is to ensure independent investigation of matters raised and to allow appropriate actions to be taken. All such investigations are undertaken by a Compliance Manager who reports directly to the Chairman of the Audit Committee.

ACGC Guidebook Page 17, Para 1.2.24 and CG Guideline 11.7

CG Guideline 11.6

As above

(C.9) Auditors' independence

The Audit Committee is satisfied with the independence and objectivity of the external auditor and recommends to the Board the nomination of the external auditor for reappointment. The Audit Committee has conducted an annual review of all non-audit services provided by the external auditor and is satisfied that the nature and extent of such services do not affect the independence of the external auditor.

CG Guidelines 11.6 and 11.4(a), CA201B(5)(b), SGX1207(6)(b) and ACGC Guidebook Page 83, Para 1.2.12

(C.10) Interested Person Transactions

The Audit Committee reviewed the Group's Interested Person Transactions ("IPT") to ensure that the transactions were executed at normal commercial terms and did not prejudice the interests of the Group and its minority shareholders. The Audit Committee is satisfied that there were no material contracts involving the interests of the CEO, Directors or the controlling shareholders and their subsidiaries. Management reported that the internal control procedures for determining the transaction prices of IPT had not changed since the date of the last Annual General Meeting, at which time the shareholders' mandate for IPT was last renewed. The Audit Committee is satisfied that the internal controls over the identification, evaluation, review, approval and reporting of IPT was effective.

ACGC Guidebook Page 91, Para 1.2.1

Management accordingly recommended that the Company not appoint an independent financial advisor to review the IPT methods and procedures in the current financial year. Pursuant to the provisions under SGX-ST Listing Rule 920(1), the Audit Committee concurred with management's recommendations.

(D) COMMUNICATION WITH SHAREHOLDERS

Principle 14: Communication with Shareholders

Companies should engage in regular, effective and fair communication with shareholders.

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CG Guideline 14.1

Companies should regularly convey pertinent information, gather views or inputs, and address shareholders' concerns. In disclosing information, companies should be as descriptive, detailed and forthcoming as possible, and avoid boilerplate disclosures.

CG Guideline 14.2

Companies should disclose information on a timely basis. Where there is inadvertent disclosure made to a selected group, companies should make the same disclosure publicly to all others as soon as practicable. This could be through the use of modern technology such as Internet websites.

The Group values dialogue with its shareholders. The Group believes in regular, effective and fair communication with its shareholders and is committed to hearing shareholders' views and addressing their concerns where possible. The Group has a dedicated investor relations team which communicates with its shareholders and analysts on a regular basis and attends to their queries or concerns. The team also manages the dissemination of corporate information to the media, public, institutional investors and public shareholders, and acts as a liaison point for such entities and parties. Shareholders can avail themselves of a telephone or email feedback line that goes directly to the Group's investor relations team. Material information is published on SGXNET and on the Company's website www.pwcholdings.com.sg, and where appropriate, through media releases.

CG Guideline 14.1

CG Guideline 14.2

The Group monitors the dissemination of material information to ensure that it is made publicly available on a timely and non-selective basis. Results and annual reports are announced or issued within the mandatory period. Briefings for the quarterly and full year results are conducted for analysts and the media following the release of the results via SGXNET. Presentations are made, as appropriate, to explain the Group's strategy, performance and major developments. All analysts' and media briefing materials are made available on SGXNET and on the Company's website www.pwcholdings.com.sg for the information of shareholders.

CG Guideline 14.2

Principle 15: Greater Shareholder Participation

Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company.

CG Guideline 15.1

Shareholders should have the opportunity to participate effectively and to vote in AGMs. They should be allowed to vote in person or in absentia. In this regard, companies are encouraged to make the appropriate provisions in their Articles of Association to allow for absentia voting methods such as by mail, email, fax, etc, if the shareholders so consent.

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

For the financial year ended 31 December 2011

The Group believes in encouraging shareholder participation at general meetings. A shareholder who is entitled to attend and vote may either vote in person or in absentia through the appointment of one or more proxies. The Company's Articles of Association have not yet been amended to allow for other absentia voting methods such as by mail, electronic mail, fax and/or other methods; this issue is reviewed by the Board on a regular basis. The Board has resolved to propose such an amendment when the necessary security and other measures to protect against errors, fraud and other irregularities are available on a cost-effective basis and when the Board views this is of sufficient interest to the Company's shareholders.

CG Guideline 15.1

Commentary 15.4

Companies are encouraged to amend their Articles of Association to avoid imposing a limit on the number of proxies for nominee companies so that shareholders who hold shares through nominees can attend AGMs as proxies.

The Company's Articles of Association presently provide for a member to appoint not more than two proxies to attend a general meeting. Notwithstanding Commentary 15.4 of the Code, they have not been amended to lift the limit on the number of proxies for nominee companies to enable shareholders who hold shares through nominees to attend as proxies. This is because it will not be possible to make such an amendment to apply only to nominee company shareholders and not to the other shareholders. In addition, the Board views that lifting the limit would not promote greater efficiency or effective decision making nor would it be cost-effective. As a compromise, the Board is considering to increase the number of proxies any one member may appoint. The Board is studying the matter and may make a proposal in due course to shareholders for their approval.

CG Guideline 15.4

CG Guideline 15.3

The chairpersons of the Audit, Nomination and Remuneration committees should be present and available to address questions at general meetings. The external auditors should also be present to address shareholders' queries about the conduct of audit and the preparation and content of the auditors' report.

At each Annual General Meeting, the Board presents the progress and performance of the Group and encourages shareholders to participate in the question and answer session. The external auditor is present to address shareholders' queries on the conduct of the audit and the preparation and content of the auditor's report.

CG Guideline 15.3

The Chairpersons of the Audit, Nomination and Remuneration Committees, or members of the respective Committees standing in for them, are present at each Annual General Meeting, and other general meetings held by the Company, if any, to address shareholders' queries. Appropriate senior management personnel/members are also present at general meetings to respond, if necessary, to operational questions from shareholders.

CG Guideline 15.3

PwC Holdings Ltd and its Subsidiaries

Reference

Corporate Governance Report

For the financial year ended 31 December 2011

CG Guideline 15.2

There should be separate resolutions at general meetings on each substantially separate issue. Companies should avoid “bundling” resolutions unless the resolutions are interdependent and linked so as to form one significant proposal. Where resolutions are “bundled”, companies should explain the reasons and material implications.

Each item of special business included in the notice of the meeting will be accompanied by a full explanation of the effects of a proposed resolution. Separate resolutions are proposed for substantially separate issues at the meeting.

CG Guideline 15.2

Commentary 15.5

Companies are encouraged to prepare minutes or notes of general meetings, which include substantial comments or queries from shareholders and responses from the Board and management, and to make these minutes or notes available to shareholders upon their requests.

A summary of the discussion at the Annual General Meeting will be made available on the Group’s website at www.pwcholdings.com.sg.

Commentary 15.5

DEALINGS IN SECURITIES

The Group has adopted an internal code on securities trading which provides guidance and internal regulation with regard to dealings in the Group’s securities by its directors and officers that is modelled on the dealing section in SGX Best Practices Guide. The Group’s internal code prohibits its directors and officers from dealing in listed securities of the Group while in possession of unpublished material or price-sensitive information in relation to such securities and during the “closed period”, which is defined as two weeks before the date of announcement of results for each of the first three quarters of the Group’s financial year and one month before the date of announcement of the full year financial results. Directors and officers are also prohibited from dealing in the Group’s securities on short-term considerations.

Directors' Report

For the financial year ended 31 December 2011

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 December 2011 and the balance sheet of the Company as at 31 December 2011.

CA 201(5)
CA 201(6A)

Directors

The directors of the Company in office at the date of this report¹ are as follows:

CA 201(6)(a)
CA 201(6A)(a)

Mr Tan Cheng Eng
Mr David Grey
Mr Ang Boon Chew
Mr Michael Philip White
Mr Balachandran Nair
Madam Wan Oon Kee
Mr Lee Chee Wai (appointed on 1 May 2011)¹
Dr Ran Jedwin Gervasio (appointed on 26 February 2012)¹

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than as disclosed under "Share options" on pages 53 and 54 of this report.

CA 201(6)(f)
CA 201(6A)(g)
CA 164(1)(d)

Directors' interests in shares or debentures²

(a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations³, except as follows:

CA 201(6)(g)
CA 201(6A)(h)
CA 164(1)(a,b)

| | Holdings registered in name of director or nominee | | Holdings in which director is deemed to have an interest | |
|---|---|--|---|--|
| | At 31.12.2011 | At 1.1.2011 or date of appointment if later | At 31.12.2011 | At 1.1.2011 or date of appointment if later |
| Company (No. of ordinary shares) | | | | |
| Mr David Grey | 1,270,000 | 500,000 | 1,500,000 | 1,000,000 |
| Mr Ang Boon Chew | 97,000 | 65,000 | – | – |
| Mr Lee Chee Wai | 2,000 | 2,000 | – | – |
| Ultimate Holding Corporation - PwC Global Limited (No. of ordinary shares) | | | | |
| Mr David Grey | 1,000,000 | 1,000,000 | – | – |
| Immediate Holding Company - PwC Corporate Limited (No. of ordinary shares) | | | | |
| Mr Andrew Lloyd (resigned on 5 January 2011) ² | 200,000 | 200,000 | – | – |

Directors' Report

For the financial year ended 31 December 2011

Directors' interests in shares or debentures² (continued)

- (b) According to the register of directors' shareholdings, certain directors holding office at the end of the financial year had interests in options to subscribe for ordinary shares of the Company granted pursuant to the PwC Employee Share Option Scheme as set out below and under "Share options" on pages 53 and 54 of this report.

CA 201(6)(g)
CA 201(6A)(h)
CA 164(1)(c)

| | <u>No. of unissued ordinary shares under option</u> | |
|-------------------------|---|---|
| | <u>At 31.12.2011</u> | <u>At 1.1.2011 or date of appointment, if later</u> |
| <u>Mr Ang Boon Chew</u> | | |
| 2007 Options | – | 30,000 |
| 2009 Options | 50,000 | 50,000 |
| 2010 Options | 50,000 | – |

- (c) Mr David Grey, who by virtue of his interest of not less than 20% of the issued capital of the Company, is deemed to have an interest in the whole of the share capital of the Company's wholly owned subsidiaries and in the shares held by the Company in the following subsidiaries that are not wholly owned by the Group:

CA 201(6A)(h)
CA 7(4A)
CA 201(6)(g)

| | <u>No. of unissued ordinary shares under option</u> | |
|---|---|---|
| | <u>At 31.12.2011</u> | <u>At 1.1.2011 or date of appointment, if later</u> |
| PwC Furniture (PRC) Co., Ltd | | |
| - Registered and issued share capital | RMB 8,500,000 | RMB 8,500,000 |
| PwC Components (Singapore) Pte Ltd | | |
| - No. of ordinary shares | 1,300,000 | 1,300,000 |
| PwC Components (China) Pte Ltd | | |
| - No. of ordinary shares | 2,000,000 | – |

- (d) The directors' interests in the ordinary shares and convertible securities of the Company as at 21 January 2012 were the same as those as at 31 December 2011.

SGX 1207(7)

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements and in this report, and except that Mr David Grey has an employment relationship with the ultimate holding corporation, and has received remuneration in that capacity.

CA 201(8)
SGX 1207(8)

Directors' Report

For the financial year ended 31 December 2011

Reference**Share options****(a) PwC Employee Share Option Scheme⁴**CA 201(11B)
SGX 1207(15)

The PwC Employee Share Option Scheme (the "Scheme") for key management personnel and employees of the Group was approved by members of the Company at an Extraordinary General Meeting on 6 December 2006.

SGX 853

The Scheme provides a means to recruit, retain and give recognition to employees who have contributed to the success and development of the Group.

Under the Scheme, options to subscribe for the ordinary shares of the Company are granted to key management personnel and employees with more than three years of service with the Group. The exercise price of the options is determined at the average of the closing prices of the Company's ordinary shares as quoted on the Singapore Exchange for five market days immediately preceding the date of the grant. No options are granted at a discount to the prevailing market price of the shares. The vesting of the options is conditional on the key management personnel or employees completing another two years of service to the Group and the Group achieving its targets of profitability and sales growth. Once the options are vested, they are exercisable for a period of four years. The options may be exercised in full or in part in respect of 1,000 shares or a multiple thereof, on the payment of the exercise price. The persons to whom the options have been issued have no right to participate by virtue of the options in any share issue of any other company. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

CA 201(11B,12(b))

SGX 852(2,1(d)), 845(5)

CA 201(11B,11(d))

CA 201 (11B,11(e),12(b))

The aggregate number of shares over which options may be granted on any date, when added to the number of shares issued and issuable in respect of all options granted under the Scheme, shall not exceed 15% of the issued share capital of the Company on the day preceding that date.

SGX 845(1)

The Scheme became operative upon the Company granting options to subscribe for 2,050,000 ordinary shares of the Company on 1 January 2008 ("2008 Options"). The Company also granted options to subscribe for 1,965,000 ordinary shares of the Company on 1 January 2010 ("2010 Options"). Particulars of the 2008 Options and 2010 Options were set out in the Directors' Report for the financial years ended 31 December 2008 and 31 December 2010 respectively⁵.

CA 201(11A)

On 1 January 2011, the Company granted options to subscribe for 964,000 ordinary shares of the Company at exercise price of \$2.95 per share ("2011 Options"). The 2011 Options are exercisable from 1 January 2013 and expire on 31 December 2016. The total fair value of the 2011 Options granted was estimated to be \$600,000 using the Binomial Option Pricing Model. Details of the options granted to an executive director of the Company are as follows:

CA201 (11B,11(b,d))

CA201(11B,11(c))

| <u>Name of director</u> | <u>No. of unissued ordinary shares of the Company under option</u> | | | |
|-------------------------|--|---|---|---|
| | <u>Granted in financial year ended 31.12.2011</u> | <u>Aggregate granted since commencement of scheme to 31.12.2011</u> | <u>Aggregate exercised since commencement of scheme to 31.12.2011</u> | <u>Aggregate outstanding as at 31.12.2011</u> |
| Mr Ang Boon Chew | 50,000 | 130,000 | 30,000 | 100,000 |

SGX 852(1)(b)(i)

Directors' Report

For the financial year ended 31 December 2011

Share options (continued)

(a) PwC Employee Share Option Scheme⁴ (continued)

No options have been granted to controlling shareholders of the Company or their associates⁶ (as defined in the Listing Manual of Singapore Exchange Securities Trading Limited).

SGX 852(2,1(b)(iii))

No participant under the Scheme has received 5% or more of the total number of shares under option available under the Scheme.

SGX 852 (2,1(b)(iii),c(i))

During the financial year, 750,000 treasury shares of the Company were re-issued at the exercise price of \$1.31 per share, upon the exercise of the 2008 Options.

CA 201(11B,12(a))

(b) Share options outstanding

The number of unissued ordinary shares of the Company under option in relation to the PwC Employee Share Option Scheme outstanding at the end of the financial year was as follows:

CA 201(11B, 11(c),12(b))

| | No. of unissued ordinary shares under option at 31.12.2011 | Exercise price | Exercise period |
|--------------|---|-------------------|-----------------------|
| 2008 Options | 1,000,000 | \$1.31 | 1.1.2010 - 31.12.2013 |
| 2010 Options | 1,532,000 | \$1.28 | 1.1.2012 - 31.12.2015 |
| 2011 Options | 964,000 | \$2.95 | 1.1.2013 - 31.12.2016 |
| | <u>3,496,000</u> | | |

Audit Committee⁷

The members of the Audit Committee at the end of the financial year were as follows:

Mr Balachandran Nair (Chairman)
 Mr Tan Cheng Eng
 Mr David Grey
 Mr Michael Philip White
 Madam Wan Oon Kee

All members of the Audit Committee were non-executive directors. Except for Mr David Grey who was an Executive Director of PwC Global Limited, the ultimate holding corporation of the Group, all members were independent.

PwC Holdings Ltd and its Subsidiaries

Reference

Directors' Report

For the financial year ended 31 December 2011

Audit Committee⁷ (continued)

The Audit Committee carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act. In performing those functions, the Committee reviewed:

CA 201B(9)

- the scope and the results of internal audit procedures with the internal auditor;
- the audit plan of the Company's independent auditor and any recommendations on internal accounting controls arising from the statutory audit;
- the assistance given by the Company's management to the independent auditor; and
- the balance sheet of the Company and the consolidated financial statements of the Group for the financial year ended 31 December 2011 before their submission to the Board of Directors, as well as the independent auditor's report on the balance sheet of the Company and the consolidated financial statements of the Group.

The Audit Committee has recommended to the Board that the independent auditor, PricewaterhouseCoopers, be nominated for re-appointment at the forthcoming Annual General Meeting of the Company.

Independent Auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

DV

On behalf of the directors⁸



Tan Cheng Eng
Director



Ang Boon Chew
Director

19 March 2012^{9,10}

Directors' Report

For the financial year ended 31 December 2011

Guidance notes

Directors' Report

Directors in office at the date of the report

1. The names of the directors that are holding office at the date of the Directors' Report are required to be disclosed. There is no requirement to give details of director(s) who resigned in the current financial year and up to the date of the Directors' Report. If a director is appointed during the financial year/period and remains in office at the date of the Directors' Report, the date of the appointment, although not required, is recommended to be disclosed to clearly identify the new director.

CA 201(6,6A)

Directors' interests in shares or debentures

2. A director's interests include his personal holdings, the beneficial interests of his immediate family and any deemed interest as defined under Section 7 of the Companies Act.

CA 201(6)(g)
CA 201(6A)(h)

Interests in rights or share options are also required to be disclosed.

CA 201(11)
CA 201(11B)

If a director resigns after the end of the financial year/period but before the date of the Directors' Report, his interests at the end of the financial year/period are still required to be disclosed.

If none of the directors have any interests in shares or debentures in the Company or any related corporations, the following disclosure is suggested:

"None of the directors of the Company holding office at the end of the financial year had any interests in the shares or debentures of the Company or any related corporations."

3. Related corporations include the Company's holding companies, subsidiaries and fellow subsidiaries.

CA 6

Share options

4. The disclosures required by Section 201(11) of the Companies Act relate to share options granted by the Company. If the share options are granted by the parent of the Company or by another related entity directly to the employees of the Company and/or its subsidiaries, the Company is not required to make those disclosures required by Section 201(11) in the Directors' Report. The share options shall however be accounted for in accordance with FRS 102 Share-Based Payment in the financial statements.
5. Where such disclosures have been made in a previous report, reference may be made to that report.

CA 201(11,11B)

CA 201(11A)

Directors' Report

For the financial year ended 31 December 2011

Guidance notes

Directors' Report (continued)

Definition of associates

6. The SGX Listing Manual defines associates differently to that in paragraph 2 of FRS 28 *Investment in Associates*. An associate is defined in the SGX Listing Manual as:

- (a) in relation to any director, chief executive officer, substantial shareholder or controlling shareholder (being an individual):
 - (i) his immediate family;
 - (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and
 - (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30% or more.
- (b) in relation to a substantial shareholder or a controlling shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more.

SGX (General – Definitions)

Audit Committee

- 7. The details and functions of the Audit Committee shall be included in the Directors' Report of listed companies if the statutory accounts (which would not contain a section on corporate governance), rather than the annual report, are filed with the Accounting and Corporate Regulatory Authority ("ACRA"). If the Annual Report is filed with the ACRA, this section is not required.
- 8. This phrase is not necessary if the Company has only two directors. The same applies to Statement by Directors.
- 9. The Directors' Report shall be made out and sent to all persons entitled to receive notice of general meetings of the Company not less than 14 days before the date of the Annual General Meeting ("AGM"). The report shall be made in accordance with a resolution of the directors, specifying the day on which it was made out and be signed by at least two directors. The same applies to the Statement by Directors.
- 10. AGMs for listed companies shall be held within four months after the end of their financial years. AGMs for non-listed companies shall be held within six months after the end of their financial years.

CA 201B(9)

CA 203(1)
SGX 707(2)

CA 201(5)
CA 201(15)

CA 201(1)(a,b)
SGX 707(1)
CA 201(3A) (a)(i,ii)

Statement by Directors

For the financial year ended 31 December 2011

In the opinion of the directors,

- (a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 63 to 240 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended^{1,2,3}; and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

CA 201(15)(a)

CA 201(15)(b)

CA 201(15)(c)

On behalf of the directors⁴



Tan Cheng Eng
Director



Ang Boon Chew
Director

19 March 2012⁴

Statement by Directors

For the financial year ended 31 December 2011

Guidance notes

Statement by Directors

Compliance with Singapore Financial Reporting Standards (“FRS”)

1. Directors are required to present statutory accounts that comply with FRS unless:
 - (a) the Company has obtained the approval of the ACRA for such non-compliance with FRS requirements; or
 - (b) such compliance will not give a true and fair view of the accounts. In this regard, the following disclosure is needed:
 - (i) a statement by the independent auditor of the Company (in the Independent Auditor’s Report) that he agrees that such non-compliance is necessary for the accounts or consolidated accounts, as the case may be, to give a true and fair view of the matter concerned;
 - (ii) particulars of the departure, the reason therefore and its effect, if any; and
 - (iii) such further information and explanations as will give a true and fair view of that matter.

CA 201(1A,3)
CA 201(3A)
CA 201(14)

CA 201(14A)
SGX 1207(5)(e)

CA 201(14B)

FRS are currently prescribed by Accounting Standards Council (“ASC”), with the enactment of the Accounting Standards Act on 1 November 2007.

2. Companies listed on both the Singapore Exchange and another stock exchange outside Singapore are allowed to present their statutory accounts that comply with International Financial Reporting Standards (“IFRS”) or United States Generally Accepted Accounting Principles (“US GAAP”), if the stock exchange outside Singapore requires the Company to comply with IFRS or US GAAP.

CA 201(14C)
CA Order 2003
S2/2003
SGX 220(1)

Inclusion of Company’s statement of changes in equity

3. A holding company may choose to present the statement of changes in equity of the Company, in addition to the balance sheet of the Company and the consolidated financial statements of the Group. If so, paragraph (a) in the Statement by Directors can be replaced with the following:

“the balance sheet and the statement of changes in equity of the Company and the consolidated financial statements of the Group as set out on pages [] to [] are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date; and”

In addition to the above, a holding company may also choose to present the statement of comprehensive income and/or the statement of cash flows of the Company. When this occurs, the above paragraph needs to be tailored.

Dating and signing of Statement by Directors

4. Please refer to guidance notes 8 to 10 under Directors’ Report.

Independent Auditor's Report to the Members of PwC Holdings Ltd

Reference

CA 201(4)
CA 207

Report on the Financial Statements

SSA 700

We have audited the accompanying financial statements of PwC Holdings Ltd (the "Company") and its subsidiaries (the "Group") set out on pages 63 to 240, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 December 2011, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "Act") and Singapore Financial Reporting Standards³, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

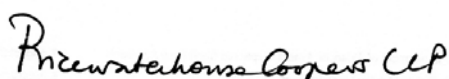
In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards³ so as to give a true and fair view of the state of affairs of the Group and of the Company¹ as at 31 December 2011, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

CA 207(2)(a)

Report on other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors, have been properly kept in accordance with the provisions of the Act.

CA 207(2)(b)



PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore, 19 March 2012⁴

Independent Auditor's Report

For the financial year ended 31 December 2011

Guidance notes

Independent Auditor's Report

Inclusion of Company's statement of changes in equity

1. A holding company may choose to present the statement of changes in equity of the Company, in addition to the balance sheet of the Company and the consolidated financial statements of the Group. If so, the corresponding paragraphs in the Independent Auditor's Report shall be replaced by the following:

"We have audited the accompanying consolidated financial statements of PwC Holdings Ltd (the "Company") and its subsidiaries (the "Group") set out on pages [] to [], which comprise the consolidated balance sheet and the balance sheet of the Company as at 31 December 2011, the consolidated statement of changes in equity of the Group and the statement of changes in equity of the Company, the consolidated statement of comprehensive income and the consolidated statement of cash flows of the Group for the financial year then ended...

... in our opinion, the consolidated financial statements of the Group, the balance sheet and the statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011, the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the financial year ended on that date."

SSA700
AGS 1
(Guidance to
Example 1C)

Presentation of a consolidated income statement in addition to the consolidated statement of comprehensive income

2. If the group chooses to present a consolidated income statement in addition to the consolidated statement of comprehensive income, as permitted by FRS 1 (revised) ("Two statements approach"), the Auditor's report will need to refer to the consolidated income statement, in addition to the consolidated statement of comprehensive income.

SSA 700(60)

Compliance with Singapore Financial Reporting Standards

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

Date of Independent Auditor's Report

4. The directors are required to take reasonable steps to ensure that the accounts are audited not less than 14 days before the AGM of the Company. In general, the Independent Auditor's Report will be dated on the same date as the Directors' Report and the Statement by Directors. The auditor shall date the auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion on the financial statements. Sufficient audit evidence includes evidence that the entity's complete set of financial statements has been prepared and that those with the recognised authority have asserted that they have taken responsibility for them.

CA 201(4A)

SSA 700(41)

PwC Holdings Ltd and its Subsidiaries

Consolidated Statement of Comprehensive Income^{1, 2}

For the financial year ended 31 December 2011

Reference

FRS 1(88,92)
SGX 1207(5)(a)

| | Note | 2011 ³ \$'000 | 2010 ³ (restated) \$'000 | |
|--|-------|-----------------------------|---|--------------------------------|
| Continuing operations⁴ | | | | |
| Sales | 4 | 210,214 | 112,360 | FRS 1(82)(a) |
| Cost of sales | | (77,366) | (46,682) | FRS 1(103) |
| Gross profit | | 132,848 | 65,678 | FRS 1(103) |
| Other income | 7 | 3,898 | 1,166 | FRS 1(103) |
| Other losses - net | 8 | (1,383) | (1,611) | |
| Expenses | | | | |
| - Distribution and marketing | | (52,140) | (19,993) | FRS 1(103) |
| - Administrative | | (29,179) | (10,107) | FRS 1(103) |
| - Finance | 9 | (7,073) | (9,060) | FRS 1(82)(b) |
| Share of (loss)/profit of associated companies ⁵ | | (174) | 145 | FRS 1(82)(c) |
| Profit before income tax | | 46,797 | 26,218 | |
| Income tax expense | 10(a) | (14,902) | (7,624) | FRS 1(82)(d) |
| Profit from continuing operations⁴ | | 31,895 | 18,594 | |
| Discontinued operations⁴ | | | | |
| Profit/(loss) from discontinued operations | 11 | 100 | (480) | FRS 1(82)(e) FRS 105(33)(a) |
| Total profit⁴ | | 31,995 | 18,114 | FRS 1(82)(f) |
| Other comprehensive income⁷: | | | | FRS 1(82)(g) |
| Available-for-sale financial assets | | | | |
| - Fair value gains | | 582 | 72 | |
| - Reclassification ⁸ | | (164) | - | |
| Cash flow hedges | | | | |
| - Fair value gains | | 342 | 331 | |
| - Reclassification ⁸ | | (279) | (315) | |
| Currency translation differences arising from consolidation | | 2,334 | (118) | |
| Reclassification ⁸ of currency translation reserves on disposal of a subsidiary | | (1,200) | - | |
| Revaluation gains on property, plant and equipment ⁹ | | 207 | 894 | |
| Share of other comprehensive income of associated companies | | 27 | - | FRS 1(82)(h) |
| Other comprehensive income, net of tax | 10(c) | 1,849 | 864 | |
| Total comprehensive income | | 33,844 | 18,978 | FRS 1(82)(i) |

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Comprehensive Income^{1, 2}

For the financial year ended 31 December 2011

| | Note | 2011 ³ \$'000 | 2010 ³ (restated) \$'000 | |
|---|------|-----------------------------|---|---------------|
| Profit attributable to: | | | | |
| Equity holders of the Company | | 29,446 | 17,185 | FRS 1(83) (a) |
| Non-controlling interests | | 2,549 | 929 | |
| | | <u>31,995</u> | <u>18,114</u> | |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the Company | | 30,738 | 17,936 | FRS 1(83) (b) |
| Non-controlling interests | | 3,106 | 1,042 | |
| | | <u>33,844</u> | <u>18,978</u> | |
| Earnings per share⁶ for profit from continuing and discontinued operations attributable to equity holders of the Company (\$ per share) | | | | FRS 33(66) |
| Basic earnings per share | | | | |
| From continuing operations | 12 | 1.31 | 0.90 | |
| From discontinued operations | | * | (0.02) | |
| Diluted earnings per share | | | | |
| From continuing operations | 12 | 1.16 | 0.87 | FRS 33(66) |
| From discontinued operations | | * | (0.02) | |

* Less than \$0.01

Consolidated Statement of Comprehensive Income¹

For the financial year ended 31 December 2011

Guidance notes

Consolidated statement of comprehensive income

Statement of comprehensive income, statement of cash flows and statement of changes in shareholders' equity of the parent

1. If consolidated financial statements are presented, the statement of comprehensive income, statement of cash flows and statement of changes in shareholders' equity of the parent need not be presented. If consolidated financial statements are not presented (e.g. exempted under FRS 27), the statement of comprehensive income, statement of cash flows and statement of changes in shareholders' equity of the parent, forming a set of financial statements of the parent, should be presented.

CA 201(3A)
SGX 1207(5)

CA 201(3BA)

Alternative format

2. An entity shall present an analysis of expenses using a classification based on either the function or the nature of the expenses, whichever provides information that is reliable and more relevant. In addition, an entity has the choice of presenting the statement of comprehensive income using a one-statement or a two-statement approach. These alternative presentations have been illustrated in Appendix 1 Example 1.

FRS 1(99)

FRS 1(81)

If the expenses are presented by function, additional disclosures on the nature of expenses are required (Note 5 of the financial statements).

FRS 1(104)

Financial years/periods of different length

3. Where the current reporting period and the comparative reporting period are of unequal timeframe, an entity shall disclose the period covered, the reason for using that period and the fact that comparative amounts for the statement of comprehensive income, changes in equity, cash flows and related disclosure notes are not entirely comparable.

FRS 1(36)

Continuing/Discontinued operations

4. A discontinued operation must represent a separate major line business or geographical area of operations or is a 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 for resale. If there is no discontinued operation, the heading "Continuing operations" is not required. "Profit from continuing operations" and "Total profit" should also be changed to "Net profit".

FRS 105 AppA

Share of results of associated companies

5. The share of results of associated companies refers to the Group's share of associated companies' results after tax and non-controlling interests accounted for in accordance with FRS 28 *Investments in Associates*. The share of results of joint ventures accounted for using equity accounting is presented similarly.

FRS 1(82)(c)
FRS 1 IG6

Earnings per share

6. The basic and diluted earnings per share for each class of ordinary shares shall be presented, even if the amounts are negative (i.e. a loss per share).

FRS 33(66,69)

Consolidated Statement of Comprehensive Income¹

For the financial year ended 31 December 2011

Guidance notes

Consolidated statement of comprehensive income (continued)

Tax effects - Other comprehensive income

7. This publication illustrates the presentation of these items individually net of tax. Alternatively, an entity can present these items individually gross of tax and their total tax effects as a separate line item.

FRS 1(91)

Reclassification adjustments

8. Reclassification adjustments are adjustments for amounts previously recognised in the comprehensive income now reclassified to profit or loss.

FRS 1(93)

FRS 1(95)

For example, gains realised on the disposal of available-for-sale financial assets are included in profit or loss of the current period. These amounts may have been recognised in other comprehensive income as unrealised gains in the current or previous periods. Those unrealised gains must be deducted from other comprehensive income in the period in which the realised gains are reclassified to profit or loss to avoid including them in total comprehensive income twice.

Reclassification adjustments also arise, e.g. on disposal of a foreign operation, on impairment of an available-for-sale financial asset and when a hedged forecast transaction affects profit or loss.

9. Reclassification adjustments do not arise on changes in revaluation surplus recognised in accordance with FRS 16 or FRS 38 or on actuarial gains and losses on defined benefit plans recognised in accordance with paragraph 93A of FRS 19. These components are recognised in other comprehensive income and are not reclassified to profit or loss in subsequent periods. Changes in revaluation surplus may be transferred to retained earnings in subsequent periods as the asset is used or when it is derecognised (see FRS 16 and FRS 38). Actuarial gains and losses are reported in retained earnings in the period that they are recognised as other comprehensive income (see FRS 19).

FRS 1(96)

Additional disclosures

10. Additional line items, headings and subtotals shall be presented on the face of the statement of comprehensive income and separate income statement (if presented), only when such presentation is necessary for an understanding of the entity's financial performance, the presentation is free of bias and undue prominence, the presentation is applied consistently and the methods are described in detail in the accounting policies.

FRS 1(55)

Balance Sheet – Group¹

As at 31 December 2011

| | Note | 2011 \$'000 | 2010 (restated) \$'000 | 2009 (restated) \$'000 | FRS 1(54,77) SGX 1207(5)(a) SGX 1207(5)(b) |
|---|------|----------------|------------------------------|------------------------------|--|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 13 | 22,010 | 36,212 | 31,221 | FRS 1(60) FRS 1(54)(i) |
| Financial assets, at fair value through profit or loss | 14 | 10,785 | 8,326 | 9,571 | FRS 1(54)(d) |
| Derivative financial instruments | 15 | 1,069 | 452 | 410 | FRS 1(54)(d) |
| Available-for-sale financial assets | 16 | 1,950 | 646 | 1,125 | FRS 1(54)(d) |
| Trade and other receivables | 17 | 19,510 | 16,399 | 17,305 | FRS 1(54)(h) |
| Inventories | 18 | 24,258 | 17,094 | 19,250 | FRS 1(54)(g) |
| Construction contract work-in-progress | 19 | 262 | 147 | 347 | |
| | | 79,844 | 79,276 | 79,229 | |
| Disposal group classified as held-for-sale | 11 | 3,333 | – | – | FRS 105(38) FRS 1(54)(j) |
| | | 83,177 | 79,276 | 79,229 | |
| Non-current assets | | | | | |
| Derivative financial instruments | 15 | 395 | 112 | 215 | FRS 1(60) FRS 1(54)(d) |
| Available-for-sale financial assets | 16 | 15,298 | 12,291 | 11,958 | FRS 1(54)(d) |
| Trade and other receivables | 20 | 3,322 | 1,990 | 2,512 | FRS 1(54)(h) |
| Investments in associated companies | 23 | 8,208 | 8,569 | 8,133 | FRS 1(54)(e) |
| Investment properties | 26 | 5,550 | 5,455 | 3,365 | FRS 1(54)(b) |
| Held-to-maturity financial assets | 27 | 2,122 | 1,593 | – | FRS 1(54)(d) |
| Property, plant and equipment | 28 | 153,611 | 97,890 | 104,328 | FRS 1(54)(a) |
| Intangible assets | 29 | 24,930 | 19,600 | 19,966 | FRS 1(54)(c) |
| Deferred income tax assets | 36 | 3,319 | 3,228 | 1,995 | FRS 1(54)(o) |
| | | 216,755 | 150,728 | 152,472 | |
| Total assets | | 299,932 | 230,004 | 231,701 | |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 30 | 16,441 | 10,556 | 5,767 | FRS 1(60) FRS 1(54)(k) |
| Current income tax liabilities | 10 | 2,942 | 3,833 | 9,595 | FRS 1(54)(n) |
| Derivative financial instruments | 15 | 440 | 240 | 300 | FRS 1(54)(m) |
| Borrowings | 31 | 9,524 | 15,670 | 12,131 | FRS 1(54)(m) |
| Provisions | 35 | 2,126 | 2,300 | 1,129 | FRS 1(54)(l) |
| | | 31,473 | 32,599 | 28,922 | |
| Liabilities directly associated with disposal group classified as held-for-sale | 11 | 220 | – | – | FRS 105(38) FRS 1(54)(p) |
| | | 31,693 | 32,599 | 28,922 | |
| Non-current liabilities | | | | | |
| Trade and other payables | 30 | 350 | – | 91 | FRS 1(60) FRS 1(54)(k) |
| Derivative financial instruments | 15 | 135 | 44 | 100,145 | FRS 1(54)(m) |
| Borrowings | 31 | 118,300 | 89,214 | 2,320 | FRS 1(54)(m) |
| Deferred income tax liabilities | 36 | 11,646 | 8,406 | 5,040 | FRS 1(54)(o) |
| Provisions | 35 | 1,655 | 1,585 | 1,250 | FRS 1(54)(l) |
| | | 132,086 | 99,249 | 108,846 | |
| Total liabilities | | 163,779 | 131,848 | 137,768 | |
| NET ASSETS | | 136,153 | 98,156 | 93,933 | |
| EQUITY | | | | | |
| Capital and reserves attributable to equity holders of the Company | | | | | |
| Share capital | 37 | 41,495 | 32,024 | 32,024 | FRS 1(78)(e) |
| Treasury shares | 37 | (1,418) | (900) | – | FRS 1(78)(e) |
| Other reserves | 38 | 9,628 | 6,419 | 5,046 | FRS 1(78)(e) |
| Retained profits | 39 | 78,196 | 58,941 | 55,589 | FRS 1(78)(e) |
| | | 127,901 | 96,484 | 92,659 | FRS 1(54)(r) |
| Non-controlling interests | | 8,247 | 1,766 | 1,274 | FRS 1(54)(q) |
| Total equity | | 136,148 | 98,250 | 93,933 | |

The accompanying notes form an integral part of these financial statements.

Balance Sheet – Company¹

As at 31 December 2011

| | Note | 2011 \$'000 | 2010 \$'000 | FRS 1(54,77) SGX 1207(5)(a) SGX 1207(5)(b) |
|---|------|----------------|----------------|--|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 13 | 16,252 | 2,977 | FRS 1(60) FRS 1(54)(i) |
| Derivative financial instruments | 15 | 232 | 78 | FRS 1(54)(d) |
| Trade and other receivables | 17 | 7,612 | 2,166 | FRS 1(54)(h) |
| Inventories | 18 | 2,200 | 335 | FRS 1(54)(g) |
| | | 26,296 | 5,556 | |
| Non-current assets | | | | |
| Derivative financial instruments | 15 | 34 | 6 | FRS 1(60) FRS 1(54)(d) |
| Available-for-sale financial assets | 16 | 1,500 | 1,218 | FRS 1(54)(d) |
| Trade and other receivables | 20 | 3,136 | 3,200 | FRS 1(54)(h) |
| Investments in associated companies | 23 | 1,000 | 1,000 | FRS 1(54)(e) |
| Investment in a joint venture | 24 | 880 | 880 | FRS 1(55) |
| Investments in subsidiaries | 25 | 96,160 | 96,460 | FRS 1(55) |
| Property, plant and equipment | 28 | 855 | 400 | FRS 1(54)(a) |
| Intangible assets | 29 | 1,200 | 1,100 | FRS 1(54)(c) |
| | | 104,765 | 104,264 | |
| Total assets | | 131,061 | 109,820 | |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Trade and other payables | 30 | 707 | 549 | FRS 1(60) FRS 1(54)(k) |
| Current income tax liabilities | 10 | 235 | 325 | FRS 1(54)(n) |
| Derivative financial instruments | 15 | 35 | 45 | FRS 1(54)(m) |
| Borrowings | 31 | 3,500 | 10,200 | FRS 1(54)(m) |
| Provisions | 35 | 100 | 210 | FRS 1(54)(l) |
| | | 4,577 | 11,329 | |
| Non-current liabilities | | | | |
| Derivative financial instruments | 15 | 12 | 2 | FRS 1(60) FRS 1(54)(m) |
| Borrowings | 31 | 78,267 | 61,751 | FRS 1(54)(m) |
| Deferred income tax liabilities | 36 | 2,779 | 2,051 | FRS 1(54)(o) |
| Provisions | 35 | 200 | 95 | FRS 1(54)(l) |
| | | 81,258 | 63,899 | |
| Total liabilities | | 85,835 | 75,228 | |
| NET ASSETS | | 45,226 | 34,592 | |
| EQUITY | | | | |
| Capital and reserves attributable to equity holders of the Company | | | | |
| Share capital | 37 | 41,495 | 32,024 | FRS 1(78)(e) |
| Treasury shares | 37 | (1,418) | (900) | FRS 1(78)(e) |
| Other reserves | 38 | 3,873 | 2,034 | FRS 1(78)(e) |
| Retained profits | 39 | 1,276 | 1,434 | FRS 1(78)(e) |
| Total equity | | 45,226 | 34,592 | |

The accompanying notes form an integral part of these financial statements.

Balance Sheet – Company¹

As at 31 December 2011

Guidance notes

Statement of financial position/balance sheet

Comparatives

1. When an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements, it shall present, as a minimum, three statements of financial position (or balance sheets), two of each of the other statements, and related notes. An entity presents statements of financial position (or balance sheets) as at:

- (a) the end of the current period;
- (b) the end of the previous period (which is the same as the beginning of the current period); and
- (c) the beginning of the earliest comparative period.

Refer to Example 8 in Appendix 1 for additional illustrative disclosure.

FRS 1(39)

PwC Holdings Ltd and its Subsidiaries

Reference

Consolidated Statement of Changes in Equity^{1,2}

For the financial year ended 31 December 2011

| | | Attributable to equity holders of the Company | | | | | | | | | | | |
|--|---------------|---|----------------------|-----------------|--------------------|-----------------|------------------------------|-------------------|---------------------------|------------------|----------|---------------------------|--------------|
| | | Equity component of | | | | | | | | | | | |
| Note | Share capital | Treasury shares | Share option reserve | Capital reserve | Fair value reserve | Hedging reserve | Currency translation reserve | convertible bonds | Asset revaluation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2011 | | | | | | | | | | | | | |
| Beginning of financial year | 32,024 | (900) | 1,892 | - | 127 | 24 | 2,376 | - | 2,000 | 58,852 | 96,395 | 1,761 | 98,156 |
| Purchase of treasury shares | 37 | - | (2,072) | - | - | - | - | - | - | - | (2,072) | - | (2,072) |
| Employee share option scheme | | | | | | | | | | | | | |
| - Value of employee services | 38(b)(i) | - | - | - | - | - | - | - | - | - | - | - | 690 |
| - Treasury shares re-issued | 37 | - | 1,554 | 374 | - | - | - | - | - | - | 982 | - | 982 |
| - Excess tax | 38 | - | - | 114 | - | - | - | - | - | - | 114 | - | 114 |
| Issue of new shares | 37 | 9,884 | - | - | - | - | - | - | - | - | 9,884 | - | 9,884 |
| Share issue expenses | 37 | (413) | - | - | - | - | - | - | - | - | (413) | - | (413) |
| Convertible bond | | | | | | | | | | | | | |
| - equity component | 38(b)(vi) | - | - | - | - | - | - | 1,685 | - | - | 1,685 | - | 1,685 |
| Dividend relating to 2010 paid | 40 | - | - | - | - | - | - | - | - | (10,102) | (10,102) | (1,920) | (12,022) |
| Disposal of subsidiary | 13 | - | - | - | - | - | - | - | - | - | - | (300) | (300) |
| Acquisition of a subsidiary | 47 | - | - | - | - | - | - | - | - | - | - | 5,600 | 5,600 |
| Total comprehensive income for the year ² | - | - | - | - | 445 | 63 | 582 | - | 202 | 29,446 | 30,738 | 3,106 | 33,844 |
| End of financial year | 41,495 | (1,418) | 1,636 | 488 | 572 | 87 | 2,958 | 1,685 | 2,202 | 78,196 | 127,901 | 8,247 | 136,148 |

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity^{1,2}

For the financial year ended 31 December 2011

| | | Attributable to equity holders of the Company | | | | | | | | | | |
|--|--|---|-----------------|----------------------|--------------------|-----------------|------------------------------|---------------------------|------------------|--------|---------------------------|--------------|
| | | Share capital | Treasury shares | Share option reserve | Fair value reserve | Hedging reserve | Currency translation reserve | Asset revaluation reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| | | 32,024 | - | 1,270 | 55 | 8 | 2,454 | 1,259 | 57,492 | 94,562 | 1,274 | 95,836 |
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The accompanying notes form an integral part of these financial statements.

Guidance notes

Consolidated statement of changes in equity ("SoCE")

Presentation of each component of equity in the SoCE

- FRS 1 requires an entity to show in the SoCE, for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period.
Components of equity include, e.g. each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained profits.
- The reconciliation of changes in each component of equity shall show separately each item of comprehensive income. However, this reconciliation may be presented either in the notes or in the statement of changes in equity. This presentation illustrates the latter.

FRS 1(106)(d)

FRS 1(108)

FRS 1(106A)

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2011

| | Note | 2011 \$'000 | 2010 \$'000 | FRS 7(1) SGX 1207(5)(c) |
|--|------|-----------------|----------------|----------------------------|
| Cash flows from operating activities¹ | | | | FRS 7(10,18(b)) |
| Total profit | | 31,995 | 18,114 | FRS 7(20)(b-c) |
| Adjustments for: | | | | |
| - Income tax expense | | 14,939 | 7,437 | |
| - Employee share option expense | | 690 | 622 | |
| - Amortisation, depreciation and impairment ² | | 23,204 | 10,097 | |
| - Gain on disposal of property, plant and equipment | | (17) | (8) | |
| - Impairment loss on available-for-sale financial assets | | 575 | - | |
| - Net gain on disposal of available-for-sale financial assets | | (200) | - | |
| - Reclassification adjustments from hedging reserve to profit or loss | | (230) | (354) | |
| - Loss on disposal of a subsidiary | | 945 | - | |
| - Fair value loss/(gain) on investment property | | 123 | (50) | |
| - Interest income ³ | | (1,180) | (620) | FRS 7(31-34) |
| - Dividend income ³ | | (2,230) | (400) | FRS 7(31-34) |
| - Finance expenses ³ | | 9,812 | 7,884 | FRS 7(31-34) |
| - Share of loss/(profit) of associated companies | | 174 | (145) | |
| - Unrealised currency translation losses/(gains) ^{6,7} | | 970 | 1,001 | FRS 7(25,26) |
| | | 79,570 | 43,578 | |
| Change in working capital, net of effects from acquisition and disposal of subsidiaries: | | | | FRS 7(20)(a) |
| - Inventories and construction work-in-progress | | (7,887) | 1,031 | |
| - Trade and other receivables | | (6,986) | 1,117 | |
| - Financial assets, at fair value through profit or loss | | (2,651) | (500) | |
| - Trade and other payables | | (8,527) | 526 | |
| - Provisions for liabilities and other charges | | (308) | 39 | |
| Cash generated from operations ⁵ | | 53,211 | 45,791 | |
| Interest received ³ | | 35 | 13 | FRS 7(31) |
| Interest paid ³ | | (5,789) | (9,574) | FRS 7(31) |
| Income tax paid | | (15,504) | (10,974) | FRS 7(35) |
| Net cash provided by operating activities | | 31,953 | 25,256 | |
| Cash flows from investing activities | | | | |
| Acquisition of a subsidiary, net of cash acquired | 47 | (13,400) | - | FRS 7(21) |
| Additions to property, plant and equipment ⁴ | | (9,565) | (6,042) | FRS 7(39,42) |
| Additions to investment property | | (288) | (2,040) | FRS 7(16)(a),43) |
| Additions of intangible assets | | (2,813) | (700) | FRS 7(16)(a) |
| Purchases of available-for-sale financial assets | | (3,956) | (691) | FRS 7(16)(c) |
| Purchases of held-to-maturity financial assets | | (472) | (372) | FRS 7(16)(c) |
| Disposal of a subsidiary, net of cash disposed of | 13 | 179 | - | FRS 7(39,42) |
| Disposal of property, plant and equipment | | 4,974 | 2,995 | FRS 7(16)(b) |
| Disposal of investment property | | 70 | - | |
| Disposal of available-for-sale financial assets | | 300 | - | FRS 7(16)(d) |
| Loans to an associated company | | (1,455) | (547) | FRS 7(16)(e) |
| Repayment of loans by an associated company | | 63 | 98 | FRS 7(16)(f) |
| Dividends received ³ | | 2,230 | 396 | FRS 7(31) |
| Interest received ³ | | 2,290 | 346 | FRS 7(31) |
| Net cash used in investing activities | | (21,843) | (6,557) | |

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2011

| | Note | 2011 \$'000 | 2010 \$'000 | |
|---|------|-----------------|----------------|----------------|
| Cash flows from financing activities | | | | FRS 7(21) |
| Proceeds from issuance of ordinary shares | | 9,884 | – | FRS 7(17)(a) |
| Proceeds from re-issuance of treasury shares | | 983 | – | FRS 7(17)(a) |
| Share issue expense ⁶ | | (414) | – | |
| Proceeds from issuance of convertible bond | | 50,000 | – | FRS 7(17)(a,c) |
| Proceeds from issuance of redeemable preference shares to immediate holding corporation | | – | 30,000 | FRS 7(17)(c) |
| Proceeds from borrowings | | 8,500 | 18,000 | FRS 7(17)(c) |
| Purchase of treasury shares | | (2,072) | (900) | FRS 7(17)(b) |
| Repayment of borrowings | | (71,434) | (36,745) | FRS 7(17)(d) |
| Repayment of lease liabilities | | (165) | (93) | FRS 7(17)(e) |
| Interest ³ | | (3,180) | (450) | FRS 7(31) |
| Dividends paid to equity holders of the Company | | (10,102) | (15,736) | FRS 7(31) |
| Dividends paid to non-controlling interests | | (1,920) | (550) | FRS 7(31) |
| Net cash used in financing activities | | (19,920) | (6,474) | |
| Net (decrease)/increase in cash and cash equivalents | | (9,810) | 12,225 | FRS 7(45) |
| Cash and cash equivalents | | | | |
| Beginning of financial year | 13 | 29,548 | 17,387 | FRS 7(28) |
| Effects of currency translation on cash and cash equivalents ⁷ | | (578) | (64) | FRS 7(45) |
| End of financial year | 13 | 19,160 | 29,548 | |

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2011

Guidance notes

Consolidated statement of cash flows

Direct method

1. An entity can present its statement of cash flows using the direct or indirect method; the latter is illustrated in this publication. When the direct method is used, the cash flows from operating activities shall be presented as follows:

FRS 7(18)(a)

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Cash flows from operating activities | | |
| Cash receipts from customers | 205,483 | 143,507 |
| Cash paid to suppliers and employees | (152,272) | (97,716) |
| Cash generated from operations | 53,211 | 45,791 |
| Interest received | 35 | 13 |
| Interest paid | (5,789) | (9,574) |
| Income taxes paid | (15,504) | (10,974) |
| Net cash provided by operating activities | 31,953 | 25,256 |

FRS 7 App A
FRS 7(19)

The rest of the “direct method” consolidated statement of cash flows is similar to that of the indirect method.

Discontinued operations

2. Non-cash items excluded from profit for purposes of the statement of cash flows should include those non-cash items attributed to discontinued operations.

Dividends and interest

3. Cash flows from interest received and paid and dividends received shall each be disclosed separately, and classified consistently period to period.

FRS 7(31-34)

The interest amounts to be adjusted against profit after tax are the amounts charged or credited to profit or loss. The amounts to be shown under financing or investing cash flows shall be strictly cash paid or received during the period; differences will be reflected in the changes in operating assets and liabilities or as additions to qualifying assets if interest has been capitalised in the cost of these assets.

Additions to property, plant and equipment

4. Additions to property, plant and equipment in the statement of cash flows should be net of hedging gains/losses transferred from hedging reserve.

Reconciliation from profit after tax to cash generated from operations

5. As an alternative, an entity can present the reconciliation in the notes to the financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 31 December 2011

Guidance notes

Currency translation differences

6. The adjustment of total profit for unrealised currency translation losses/(gains) usually includes currency translation differences on monetary items that form part of investing or financing activities such as long term loans. This is because these currency translation differences are included as a part of profit or loss for the financial year and need to be eliminated in arriving at the net cash flows from operating activities, as they do not relate to operating activities.

On the other hand, unrealised currency translation differences on monetary items that form part of operating activities, such as trade receivables or payables, do not usually require such adjustment, as they are already adjusted through the change in working capital lines.

7. Currency translation differences that arise on the translation of foreign currency cash and cash equivalents should be reported in the statement of cash flows in order to reconcile opening and closing balances of cash and cash equivalents, separately from operating, financing and investing cash flows.

FRS 7(28)

Proceeds from share/treasury share issuance

8. Major classes of cash receipts and cash payments arising from investing and financing activities should be reported on a gross basis, except for the cash flows described in FRS 7(22) and FRS 7(24) which are reported on a net basis.

FRS 7(21)

Under FRS 7(22), cash flows arising from the following operating, investing or financing activities may be reported on a net basis:

FRS 7(22)

- (a) Cash receipts and payments on behalf of customers when the cash flows reflect the activities of the customer rather than those of the entity; and
- (b) Cash receipts and payments for items in which the turnover is quick, the amounts are large, and maturities are short.

Under FRS 7(24), cash flows arising from the following activities of a financial institution may be reported on a net basis:

FRS 7(24)

- (a) Cash receipts and payments for the acceptance and repayment of deposits within a fixed maturity date;
- (b) The placement of deposits with and withdrawal of deposits from other financial institutions; and
- (c) Cash advances and loans made to customers and the repayment of those advances and loans.

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.^{1,2}

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^{1,2,3}

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”)¹. 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 below²:

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 follows¹:

FRS 8(22)

| | Consolidated balance sheet | | |
|---------------------------------|----------------------------|---|----------------------|
| | At 31 December 2011 | At 31 December 2010 Increase/(Decrease) | At 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 for year ended 31 December | |
|--------------------------------|---|--------|
| | Increase/(Decrease) | |
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Income tax expense | (21) | (9) |
| Profit attributable to: | | |
| 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^{1,2}

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 tax³, 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.

DV

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 income⁴

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 income⁵

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 term⁶.

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 income¹.

FRS 20(12)

Government grants relating to assets are deducted against the carrying amount of the assets².

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 accounting¹

(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 statements², 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 goodwill³. 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^{1,2}. 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 \$'000 | 2010 \$'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 investments⁴.

(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 loss³.

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.

DV

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^{1,2}.

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.

DV

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) Measurement¹

(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 attributable⁵ 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 lives¹ 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 ventures¹ 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 disposal².

(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 licences³

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”)¹

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 measured² 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 billings³, 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”. Advances³ 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 portions¹ of office buildings that are held for long-term rental yields and/or for capital appreciation and land under operating leases² 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 value³, determined annually by independent professional valuers on the highest-and-best-use⁴ 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^{1,2} 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

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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 reversed¹ 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 amount¹, 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 amount¹, in which case, such reversal is treated as a revaluation increase. However, to the extent that an impairment loss on the same revalued asset¹ 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 recognition¹ 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 way² 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 dividends¹, are recognised in profit or loss when the changes arise.

FRS 39(55)(a)

FRS 107 AppB5(e)

FRS 21(30)

Interest and dividend income¹ 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 account¹ 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^{1,2}

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 consolidation³.

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 shares²

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 bonds³

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^{1,3}:

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 rents² 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 lessor³:

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 rents² 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 Inventories¹

Inventories are carried at the lower of cost^{2,3} 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 inventories⁵. 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 sale¹.

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 Provisions¹

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 compensation¹

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^{2,3}

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 employees⁴.

(c) Termination benefits⁵

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 currency¹”). The financial statements are presented^{2,3} 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 date¹.

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 account¹.

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.

Notes to the Financial Statements

For the financial year ended 31 December 2011

3. Critical accounting estimates, assumptions and judgements^{1,2}

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

FRS 1 (122,125,126, 129)

3.1 Critical accounting estimates and assumptions

(a) Estimated impairment of non-financial assets

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

The recoverable amounts of these assets and where applicable, cash-generating units, have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 29(a)).

An impairment charge of \$4,650,000 arose in the China furniture CGU in the financial year ended 31 December 2011, which reduced the carrying amount of goodwill allocated to the China furniture CGU from \$4,680,000 to \$30,000. If the management's estimated gross margin used in the value-in-use calculation for this CGU at 31 December 2011 is lowered by 10%, the remaining goodwill of \$30,000 would be fully impaired, and in addition, the Group would reduce the carrying value of property, plant and equipment in this CGU, amounting to \$20,213,000, by \$350,000³.

If the management's estimated pre-tax discount rate applied to the discounted cash flows for the China furniture CGU at 31 December 2011 is raised by 1%, the carrying amounts of goodwill and property, plant and equipment in this CGU would have been reduced by \$30,000 and \$250,000 respectively³.

(b) Uncertain tax positions

The Group is subject to income taxes in numerous jurisdictions. In determining the income tax liabilities, management is required to estimate the amount of capital allowances and the deductibility of certain expenses ("uncertain tax positions") at each tax jurisdiction.

The Group has significant open tax assessments with one tax authority at the balance sheet date. As management believes that the tax positions are sustainable, the Group has not recognised any additional tax liability on these uncertain tax positions. The maximum exposure of these uncertain tax positions, not recognised in these financial statements is \$3,500,000.

Notes to the Financial Statements

For the financial year ended 31 December 2011

3.1 Critical accounting estimates and assumptions (continued)

(c) Construction contracts

The Group uses the percentage-of-completion method to account for its contract revenue. The stage of completion is measured by reference to the contract costs incurred to date compared to the estimated total costs for the contract.

Significant assumptions are required to estimate the total contract costs and the recoverable variation works that affect the stage of completion and the contract revenue respectively. In making these estimates, management has relied on past experience and the work of specialists.

If the revenue on uncompleted contracts at the balance sheet date increases/decreases by 10% from management's estimates, the Group's revenue will increase/decrease by \$1,250,000 and \$1,000,000 respectively³.

If the contract costs of uncompleted contracts to be incurred increase/decrease by 10% from management's estimates, the Group's profit will decrease/increase by \$800,000 and \$700,000 respectively³.

(d) Impairment of loans and receivables

Management reviews its loans and receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technological, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

If the net present values of estimated cash flows increase/decrease by 10% from management's estimates for all past due loans and receivables, the Group's and Company's allowance for impairment will decrease/increase by \$584,000 and \$220,000 respectively³.

Notes to the Financial Statements

For the financial year ended 31 December 2011

3.1 Critical accounting estimates and assumptions (continued)

(e) Fair value estimation on unlisted securities

FRS 107(27B)(e)

The Group holds corporate variable rate notes that are not traded in an active market amounting to \$5,347,000. The Group has used discounted cash flow analyses for valuing these financial assets and made estimates about expected future cash flows and credit spreads.

If the credit spread used in the discounted cash flow analysis is increased or decreased by 1% from management's estimates, the Group's carrying amount of available-for-sale financial assets will be reduced by \$196,000 or increased by \$209,000 respectively³.

3.2 Critical judgements in applying the entity's accounting policies

(a) Deferred income tax assets

The Group recognises deferred income tax assets on carried forward tax losses to the extent there are sufficient estimated future taxable profits and/or taxable temporary differences against which the tax losses can be utilised and that the Group is able to satisfy the continuing ownership test.

During 2011, the Group reorganised shareholdings of certain group entities, for which a deferred tax asset amounting to \$250,000 was recognised based on the anticipated future use of tax losses carried forward by those entities. If the tax authority regards the group entities as not satisfying the continuing ownership test, the deferred tax income asset will have to be written off as income tax expense.

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

At the balance sheet date, the fair values of certain equity securities classified as available-for-sale financial assets amounting to \$10,230,000 have declined below cost by \$203,000. The Group has made a judgement that this decline is not significant or prolonged. In making this judgement, the Group has considered, among other factors, the short-term duration of the decline, the small magnitude by which the fair value of the investment is below cost; and the positive financial health and short-term business outlook of the investee.

If the decline in fair value below cost was considered significant or prolonged, the Group would suffer an additional loss of \$203,000 in its 2011 financial statements, being the reclassification of the fair value loss included in the fair value reserve to profit or loss³.

Notes to the Financial Statements

For the financial year ended 31 December 2011

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

(c) Revenue recognition

The Group started to design and sell a new furniture line to a new customer during 2011. Revenue of \$950,000 and profit of \$665,000 are recognised on these sales.

The buyer has the right to rescind the sales if there is 5% dissatisfaction with the quality of the first 1,000 pieces of furniture sold to its customers. Based on past experience with similar sales, the Group estimates that the dissatisfaction rate will not exceed 3% and as such, recognised the revenue on this transaction during 2011. If the sale is rescinded, the Group will suffer an estimated loss of \$700,000 in its 2012 financial statements, \$665,000 being the reversal of 2011 profits and \$35,000 being the costs for returning the inventory to the warehouse³.

Guidance notes

Critical accounting estimates, assumptions and judgements

1. These disclosures must be tailored for another reporting entity as they are specific to an entity's particular circumstances. Additional examples are available in Appendix 2.
2. Disclosure of key sources of estimation uncertainty is not required for assets and liabilities that are measured at fair value based on recently observable market prices. This is because even if their fair values may change materially within the next financial year, these changes will not arise from assumptions or other sources of estimation uncertainty at the balance sheet date.
3. The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation is required to be disclosed only when it is necessary to help users of financial statements understand difficult, subjective or complex judgements made by management concerning the future and other key sources of estimation uncertainty.

FRS 1(128)

FRS 1(129)

FRS 1(126)

Notes to the Financial Statements

For the financial year ended 31 December 2011

4. Revenue

| | 2011 | Group | 2010 | |
|--|----------------|-------|----------------|-------------------|
| | \$'000 | | \$'000 | |
| Sale of goods | 172,619 | | 96,854 | FRS 18(35)(b)(i) |
| Construction revenue | 29,808 | | 11,527 | FRS 11(39)(a) |
| Rendering of services | 7,659 | | 3,929 | FRS 18(35)(b)(ii) |
| | <u>210,086</u> | | <u>112,310</u> | |
| Reclassification from hedging reserve (Note 38(b)(iv)) ^{1,2} | 128 | | 50 | FRS 107(23)(d) |
| Total sales | <u>210,214</u> | | <u>112,360</u> | |

Guidance notes

Revenue

- FRS 39 does not prescribe the income statement line item in which reclassification from hedging reserve should be included. Accordingly, an entity can also elect to present the reclassification from hedging reserve under "Other losses - net". The elected presentation should however be applied consistently.
- The ineffectiveness on cash flow hedges should be classified consistently with the results of the trading derivatives (please refer to Note 8 to financial statements).

Notes to the Financial Statements

For the financial year ended 31 December 2011

5. Expenses by nature¹

| | Group | | |
|---|---------|---------|--------------------|
| | 2011 | 2010 | |
| | \$'000 | \$'000 | |
| Purchases of inventories | 59,401 | 23,688 | |
| Amortisation of intangible assets (Note 29(d)) | 775 | 515 | FRS 38(118)(d) |
| Depreciation of property, plant and equipment (Note 28) | 17,675 | 9,582 | FRS 16(73)(e)(vii) |
| Impairment loss of goodwill (Note 29(a)) | 4,650 | – | FRS 36(126)(a) |
| Total amortisation, depreciation and impairment | 23,100 | 10,097 | FRS 1(104) |
| Employee compensation (Note 6) | 40,090 | 15,500 | FRS 1(104) |
| Sub-contractor charges ² | 12,400 | 7,700 | |
| Advertising expense ² | 10,871 | 6,952 | |
| Rental expense on operating leases | 10,588 | 8,697 | FRS 17(35)(c) |
| Research expense | 473 | 200 | FRS 38(126) |
| Transportation expense ² | 7,763 | 5,876 | |
| Reversal of inventory write-down/inventory write-down ² | (200) | 350 | FRS 2(36)(e, f) |
| Other expenses | 1,478 | 672 | |
| Changes in inventories and construction contract work-in-progress | (7,279) | (2,950) | |
| Total cost of sales, distribution and marketing costs and administrative expenses | 158,685 | 76,782 | |

Included in the Group's rental expense on operating leases is contingent rent amounting to \$40,000 (2010: \$45,000). The contingent rent was computed based on annual inflation rates published by the Singapore Department of Statistics.

FRS 17(31)(c, e(i))

Guidance notes

Expenses by nature

- This disclosure is required only of entities that present their expenses by function on the face of the statement of comprehensive income. This publication illustrates a reconciliation of significant/material expenses to the total expenses by function (excluding finance expenses). This presentation is encouraged as it ensures that all significant/material expenses have been disclosed. As an alternative, the reporting entity can present only selected significant/material expenses in this note.
- Where items of income and expense are of such size, nature or incidence that their disclosure is relevant to explain the performance of the entity for the period, the nature and amount of such items shall be disclosed separately. This includes:
 - write-downs of inventories or property, plant and equipment or reversals;
 - restructuring provision for costs of restructuring or reversal;
 - disposals of items of property, plant and equipment;
 - disposals of investments;
 - litigation settlements;
 - other reversals of provisions;
 - minimum lease payments; and
 - contingent rents and sub-lease payments.

FRS 1(104)

FRS 1(97,98)

Notes to the Financial Statements

For the financial year ended 31 December 2011

6. Employee compensation

| | 2011 | Group 2010 | |
|--|---------------|---------------|-------------------|
| | \$'000 | \$'000 | |
| Wages and salaries | 28,514 | 11,679 | |
| Employer's contribution to defined contribution plans including Central Provident Fund ¹ | 9,246 | 3,717 | FRS 19(46) |
| Termination benefits | 1,600 | – | FRS 19(142) |
| Other long-term benefits | 300 | 282 | |
| Share option expense (Note 38(b)(i)) | 690 | 622 | FRS 102(50,51(a)) |
| | <u>40,350</u> | <u>16,300</u> | |
| Less: Amounts attributable to discontinued operations | (260) | (800) | |
| Amounts attributable to continuing operations (Note 5) | <u>40,090</u> | <u>15,500</u> | |

Guidance notes

Employee compensation

- For Singapore entities, defined contribution plans include contributions to the Central Provident Fund. A number of countries in the region (e.g. Korea, Taiwan, Thailand, Vietnam, Indonesia, India, Sri Lanka, Pakistan and Bangladesh) have local legislation that requires companies to contribute to defined benefits plans. Accounting for defined benefit plans is complicated and the disclosures are extensive. Please refer to Appendix 1 Example 4 for an illustrated disclosure.

Notes to the Financial Statements

For the financial year ended 31 December 2011

7. Other income¹

FRS 1(97,98)

| | 2011 \$'000 | Group 2010 \$'000 | |
|--|----------------|-------------------------|--------------------|
| Interest income ² | | | FRS 107(20)(b) |
| - Bank deposits | 830 | 380 | FRS 18(35)(b)(iii) |
| - Held-to-maturity financial assets | 130 | 110 | |
| - Available-for-sale financial assets | 70 | 30 | |
| - Loan to an associated company | 60 | 30 | FRS 24(18) |
| - Loans and receivables from non-related parties | 90 | 70 | |
| | 1,180 | 620 | |
| Dividend income ² | 2,230 | 400 | FRS 18(35)(b)(v) |
| Rental income from investment properties (Note 26) | 488 | 146 | FRS 40(75)(f)(i) |
| | 3,898 | 1,166 | |

Included in the Group's interest income on loans and receivables from non-related parties is interest income of \$80,000 (2010: \$16,000) on impaired receivables.

FRS 107(20)(d)

Included in the Group's rental income from investment properties is contingent rent of \$50,000 (2010: \$62,000). The contingent rent was computed based on sales by the lessees.

FRS 17(56)(b)

Guidance notes

Other income

- Where "Other income" is immaterial, a reporting entity may combine it with "Other losses - net" (Note 8 to the financial statements).

Interest and dividend income

- As indicated in the guidance note under Accounting Policy Note 2.12(d), this publication illustrates the disclosure where the entity has elected to recognise interest income, interest expense and dividend income on financial assets, at fair value through profit or loss, as part of the net fair value gains or losses.

FRS 39(55)(a)
FRS 107(20)(a),
AppB5(e)

As an alternative, an entity may recognise interest income, interest expense and dividend income separately. When this option is adopted, interest income and expense shall be computed using the effective interest method in accordance with FRS 18.30(a) and FRS 39.9.

This choice is not applicable to available-for-sale financial assets. Interest calculated using the effective interest method and dividends are recognised in profit or loss and are not part of the fair value gains or losses recognised in other comprehensive income.

FRS 39(55)(b)

Notes to the Financial Statements

For the financial year ended 31 December 2011

8. Other losses - net

FRS 1(97,98)

| | 2011 \$'000 | Group 2010 \$'000 | |
|---|----------------|-------------------------|--------------------------------------|
| Fair value gains/(losses) | | | |
| - Financial assets held for trading | (891) | (1,778) | FRS 107(20)(a)(i) |
| - Financial assets designated as fair value through profit or loss at initial recognition | 610 | — | FRS 107(20)(a)(i) |
| - Derivatives held for trading | 424 | 226 | FRS 107(20)(a)(i) |
| | 143 | (1,552) | |
| Available-for-sale financial assets | | | |
| - Impairment loss (Note 16) | (575) | — | FRS 107(20)(a)(ii) FRS 107(20)(e) |
| - Reclassification from other comprehensive income on disposal (Note 38(b)(iii)) | 200 | — | FRS 107(20)(a)(ii) |
| | (375) | — | |
| Fair value gains/(losses) on fair value hedges | | | |
| - Hedged item: Firm commitments | 117 | 133 | FRS 107(24)(a)(ii) |
| - Hedging instrument: Currency forwards | (116) | (131) | FRS 107(24)(a)(i) |
| Ineffectiveness on cash flow hedges ¹ | (11) | (3) | FRS 107(24)(b) |
| Currency translation loss - net ² | (90) | (116) | FRS 21(52)(a) |
| Gain on disposal of property, plant and equipment | 17 | 8 | |
| Net fair value (losses)/gains on investment properties (Note 26) | (123) | 50 | FRS 40(76)(d) |
| Loss on disposal of subsidiary (Note 13) | (945) | — | FRS 1(97) |
| | (1,383) | (1,611) | |

Guidance notes

Other losses - net

Ineffectiveness on hedges

1. Please see guidance notes on Note 4 to financial statements.

Currency translation differences

2. Currency translation differences arising from operating activities should form part of other gains/losses while those arising from financing activities should form part of finance expenses.

Notes to the Financial Statements

For the financial year ended 31 December 2011

9. Finance expenses

| | 2011 | Group | 2010 | |
|--|---------|-------|---------|------------------|
| | \$'000 | | \$'000 | |
| Interest expense | | | | |
| - Bank borrowings | (4,922) | | (5,872) | DV |
| - Convertible bonds (Note 32) | (2,873) | | – | DV |
| - Dividend on redeemable preference shares | (1,950) | | (1,950) | FRS 24(18,19(a)) |
| - Finance lease liabilities | (67) | | (62) | DV |
| | (9,812) | | (7,884) | FRS 107(20)(b) |
| Amortisation of discount on provision for legal claims (Note 35(c)) | (70) | | (65) | FRS 37(84)(e) |
| Cash flow hedges, reclassified from hedging reserve (Note 38(b)(iv)) | 102 | | 304 | FRS 107(23)(d) |
| Currency translation gains/(losses) - net | 2,578 | | (1,540) | FRS 21(52)(a) |
| Less: Amount capitalised in investment property and property, plant and equipment (Note 26) | 129 | | 125 | FRS 23(26)(a) |
| Finance expenses recognised in profit or loss | (7,073) | | (9,060) | |

Borrowing costs on general financing were capitalised at a rate of 6.2% (2010: 5.6%).

FRS 23(26)(b)

Notes to the Financial Statements

For the financial year ended 31 December 2011

10. Income taxes

(a) Income tax expense

| | 2011 \$'000 | Group 2010 \$'000 | |
|---|----------------|-------------------------|---------------|
| Tax expense attributable to profit is made up of: | | | FRS 12(79) |
| - Profit from current financial year: | | | |
| <u>From continuing operations</u> | | | |
| Current income tax | | | |
| - Singapore | 9,701 | 3,470 | |
| - Foreign | 4,841 | 1,513 | |
| | 14,542 | 4,983 | FRS 12(80)(a) |
| Deferred income tax (Note 36) | 360 | 2,641 | FRS 12(80)(c) |
| | 14,902 | 7,624 | |
| <u>From discontinued operations</u> | | | |
| Current income tax | | | |
| - Foreign (Note 11) | 37 | (187) | FRS 12(81)(h) |
| | 14,939 | 7,437 | |
| - Under provision in prior financial years: | | | |
| <u>From continuing operations</u> | | | |
| Current income tax | - | 100 | FRS 12(80)(b) |
| | 14,939 | 7,537 | |
| Tax expense is attributable to: | | | |
| - continuing operations | 14,902 | 7,724 | |
| - discontinued operations (Note 11) | 37 | (187) | |
| | 14,939 | 7,537 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

10. Income taxes (continued)

(a) Income tax expense (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the Singapore standard rate of income tax as follows:

FRS 12(81)(c)

| | Group | |
|---|----------------|----------------|
| | 2011 \$'000 | 2010 \$'000 |
| Profit before tax from | | |
| - continuing operations | 46,797 | 26,218 |
| - discontinued operations (Note 11) | 137 | (667) |
| | <u>46,934</u> | <u>25,551</u> |
| Share of loss/(profit) of associated companies, net of tax | 174 | (145) |
| Profit before tax and share of loss/(profit) of associated companies | <u>47,108</u> | <u>25,406</u> |
| Tax calculated at tax rate of 17% (2010: 17%) ¹ | 8,008 | 4,319 |
| Effects of: | | |
| - different tax rates in other countries | 5,143 | 2,451 |
| - tax incentives | (60) | (33) |
| - expenses not deductible for tax purposes | 2,873 | 977 |
| - income not subject to tax | (966) | (225) |
| - utilisation of previously unrecognised | | |
| - tax losses | (44) | (23) |
| - capital allowances | (26) | (15) |
| - other | 11 | (14) |
| Tax charge | <u>14,939</u> | <u>7,437</u> |

(b) Movement in current income tax liabilities

DV

| | Group | | Company | |
|---|----------------|----------------|----------------|----------------|
| | 2011 \$'000 | 2010 \$'000 | 2011 \$'000 | 2010 \$'000 |
| Beginning of financial year | 3,833 | 9,595 | 325 | 285 |
| Currency translation differences | 14 | 316 | – | – |
| Acquisition of subsidiary (Note 47) | 100 | – | – | – |
| Income tax paid | (15,504) | (10,974) | (399) | (145) |
| Tax expense | 14,579 | 4,796 | 309 | 185 |
| Under provision in prior financial years | – | 100 | – | – |
| Disposal of subsidiary (Note 13) | (80) | – | – | – |
| End of financial year | <u>2,942</u> | <u>3,833</u> | <u>235</u> | <u>325</u> |

Included in the Company's current tax liabilities is consideration of \$132,000 (2010: \$125,000) that will be payable to a subsidiary when that subsidiary's tax losses are being utilised by the Company under the group relief tax system.

DV

Notes to the Financial Statements

For the financial year ended 31 December 2011

10. Income taxes (continued)

- (c) The tax (charge)/credit relating to each component of other comprehensive income is as follows:

| | Before Tax \$'000 | 2011 Tax (charge) /credit \$'000 | After Tax \$'000 | Before Tax \$'000 | 2010 Tax (charge) /credit \$'000 | After Tax \$'000 | Reference |
|--|-------------------------|--|------------------------|-------------------------|--|------------------------|---------------|
| Group | | | | | | | |
| Fair value gains and reclassification adjustments on available-for-sale financial assets | 510 | (92) | 418 | 88 | (16) | 72 | FRS 12(81)(a) |
| Fair value gains and reclassification adjustments on cash flow hedges | 77 | (14) | 63 | 20 | (4) | 16 | FRS 1R(90) |
| Currency translation differences arising from consolidation and disposal of subsidiary | 1,134 | – | 1,134 | (118) | – | (118) | FRS 1R(90) |
| Revaluation gains on property, plant and equipment | 253 | (46) | 207 | 1,133 | (239) | 894 | FRS 1R(90) |
| Share of other comprehensive income of associated companies | 27 | – | 27 | – | – | – | FRS 1R(90) |
| Other comprehensive income | 2,001 | (152) | 1,849 | 1,123 | (259) | 864 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

10. Income taxes (continued)

(d) Income tax recognised directly in equity is as follows:

| | 2011 \$'000 | Group 2010 \$'000 |
|---|----------------|-------------------------|
| Equity component of convertible bonds (Note 38(b)(vi)) | (421) | – |
| Excess tax on employee share option scheme | 114 | – |
| | (307) | – |

Guidance notes

Income taxes

Applicable tax rate(s)

1. In explaining the relationship between tax expense (or income) and accounting profit, an entity shall use an applicable tax rate that provides the most meaningful information to the users of its financial statements. This publication illustrates the disclosure where the corporate tax rate in the country in which the Company is domiciled (Singapore) is the most meaningful tax rate.

FRS 12(85)

Another entity operating in several jurisdictions may find it more meaningful to aggregate separate reconciliations prepared using the domestic rates in those jurisdictions. When that approach is issued, the line item “effect of different tax rates in other countries” will no longer be relevant.

2. In the event that changes to tax laws relating to the new tax incentives are not finalised by the reporting date and the effect is expected to be material, the following disclosure can be considered:

FRS 12(81)(d)

“The Group’s and Company’s tax liabilities have been computed based on the corporate tax rate and tax laws prevailing at balance sheet date. On [date of budget announcement] the Singapore Second Minister for Finance announced changes to the Singapore tax laws, which included new incentives that might be available to certain group entities with effect from the year of assessment 2012. The Group’s and Company’s tax expense for the financial year ended [31 December 2011] have not taken into consideration the effect of these incentives as the final detailed interpretation of the incentives had not been released by the tax authority as of the date of authorisation of these financial statements.”

Notes to the Financial Statements

For the financial year ended 31 December 2011

11. Discontinued operations and disposal group classified as held-for-sale

Following the approval of the Group's management and shareholders on 31 May 2011 to sell 50% out of its 70% interest in PwC Glass Sdn Bhd in Malaysia (comprising of the Group's glass business segment), the entire assets and liabilities related to PwC Glass Sdn Bhd are classified as a disposal group held-for-sale on the balance sheet, and the entire results from PwC Glass Sdn Bhd are presented separately on the statement of comprehensive income as "Discontinued operations". The transaction is expected to be completed by April 2012.

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

- (a) The results of the discontinued operations and the re-measurement of the disposal group are as follows:

FRS 105(33)(b)

| | Group | |
|--|---------|-------------------|
| | 2011 | 2010 ¹ |
| | \$'000 | \$'000 |
| Revenue | 1,200 | 4,600 |
| Expenses | (1,003) | (5,267) |
| Profit/(loss) before tax from discontinued operations | 197 | (667) |
| Tax | (53) | 187 |
| Profit/(loss) after tax from discontinued operations | 144 | (480) |
| Pre-tax loss recognised on the measurement to fair value less cost to sell on disposal group | (60) | – |
| Tax | 16 | – |
| After tax loss recognised on the measurement to fair value less cost to sell on disposal group | (44) | – |
| Total profit/(loss) from discontinued operations | 100 | (480) |
| Profit attributable to equity holders of the Company relates to: | | |
| - Profit from continuing operations | 29,376 | 17,521 |
| - Profit from discontinued operations | 70 | (336) |
| Total | 29,446 | 17,185 |

FRS 12(81)(h)(ii)

FRS 12(81)(h)(ii)

FRS 105 (33)(d)

- (b) The impact of the discontinued operations on the cash flows of the Group is as follows:

FRS 105(33)(c)

| | Group | |
|--------------------------------------|--------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Operating cash inflows ² | 300 | 790 |
| Investing cash outflows ² | (103) | (20) |
| Financing cash outflows ² | (295) | (66) |
| Total cash (outflows)/inflows | (98) | 704 |

Notes to the Financial Statements

For the financial year ended 31 December 2011

11. Discontinued operations and disposal group classified as held-for-sale (continued)

| | <u>Group</u> 2011 \$'000 | |
|---|--------------------------------|-------------|
| (c) Details of the assets in disposal group classified as held-for-sale are as follows: | | FRS 105(38) |
| Property, plant and equipment (Note 28) | 1,563 | |
| Intangible assets (Note 29(b)) | 100 | |
| Inventory | 1,670 | |
| | <u>3,333</u> | |
| (d) Details of the liabilities directly associated with disposal group classified as held-for-sale are as follows: | | FRS 105(38) |
| Trade and other payables | 104 | |
| Other current liabilities | 20 | |
| Provisions (Note 35(a)) | 96 | |
| | <u>220</u> | |
| | <u>Group</u> | |
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| (e) Cumulative income/(expense) recognised in other comprehensive income relating to disposal group classified as held-for-sale are as follows: | | FRS 105(38) |
| - Currency translation differences | 200 | (100) |

Guidance notes

Discontinued operations and disposal group classified as held-for-sale

Comparatives

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

FRS 105(34)

Presentation of cash flows for discontinued operations

2. The net cash flows attributable to operating, investing and financing activities of discontinued operations (including comparatives) shall be disclosed either in the notes or on the face of the statement of cash flows. This publication illustrates the disclosure when the entity elects to disclose in the notes to the financial statements.

FRS 105(33)(c)

If the entity elects to present net cash flows on the face of the statement of cash flows, the relevant net cash flows should be presented under operating, investing and financing activities respectively. It is not appropriate to combine and present the net cash flows from three activities as one line item under operating, investing or financing activities.

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Discontinued operations and disposal group classified as held-for-sale (continued)

Other disclosure requirements

3. Disclosures required by other standards do not apply to each of the non-current assets classified as held-for-sale or included in a disposal group except for those assets that are outside the scope of FRS 105 measurement requirements, which include:

FRS 105(5)
FRS 105(5B)

- (i) deferred tax assets (FRS 12 *Income Taxes*).
- (ii) assets arising from employee benefits (FRS 19 *Employee Benefits*).
- (iii) financial assets within the scope of FRS 39 *Financial Instruments: Recognition and Measurement*.
- (iv) non-current assets that are accounted for in accordance with the fair value model in FRS 40 *Investment Property*.
- (v) non-current assets that are measured at fair value less estimated point-of-sale costs in accordance with FRS 41 *Agriculture*.
- (vi) contractual rights under insurance contracts as defined in FRS 104 *Insurance Contracts*.

For example, disclosures requirements in FRS 107 are required for financial assets within the scope of FRS 39 and investment property and accounted or at fair value, even if they are classified as held-for-sale.

12. Earnings per share^{1,2}

(a) Basic earnings per share

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

FRS 33(9,10)

| | Continuing operations | | Discontinued operations | | Total | | |
|--|-----------------------|--------|-------------------------|--------|--------|--------|---------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | |
| Net profit/(loss) attributable to equity holders of the Company (\$'000) | 29,376 | 17,521 | 70 | (336) | 29,446 | 17,185 | FRS 33(70)(a) |
| Weighted average number of ordinary shares outstanding for basic earnings per share ('000) | 22,454 | 19,500 | 22,454 | 19,500 | 22,454 | 19,500 | FRS 33(70)(b) |
| Basic earnings/(loss) per share (\$ per share) | 1.31 | 0.90 | * | (0.02) | 1.31 | 0.88 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

12. Earnings per share (continued)

(b) Diluted earnings per share (continued)

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

FRS 33(30,31)

FRS 33(33,36)

FRS 33(44)

Convertible bonds are assumed to have been converted into ordinary shares at issuance and the net profit is adjusted to eliminate the interest expense less than tax effect.

FRS 33(49)

For share options, the weighted average number of shares on issue has been adjusted as if all dilutive share options were exercised. The number of shares that could have been issued upon the exercise of all dilutive share options less the number of shares that could have been issued at fair value (determined as the Company's average share price for the financial year) for the same total proceeds is added to the denominator as the number of shares issued for no consideration. No adjustment is made to the net profit.

FRS 33(45)

Diluted earnings per share for continuing operations and discontinued operations attributable to equity holders of the Company is calculated as follows:

| | Continuing operations | | Discontinued operations | | Total | | |
|--|--------------------------|--------|----------------------------|--------|--------|--------|---------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | |
| Net profit/(loss) attributable to equity holders of the Company (\$'000) | 29,376 | 17,521 | 70 | (336) | 29,446 | 17,185 | FRS 33(70)(a) |
| Interest expense on convertible bonds, net of tax (\$'000) | 2,528 | – | – | – | 2,528 | – | |
| Net profit/(loss) used to determine diluted earnings per share (\$'000) | 31,904 | 17,521 | 70 | (336) | 31,974 | 17,185 | FRS 33(70)(a) |
| Weighted average number of ordinary shares outstanding for basic earnings per share ('000) | 22,454 | 19,500 | 22,454 | 19,500 | 22,454 | 19,500 | FRS 33(70)(b) |
| Adjustments for ('000) | | | | | | | |
| - Convertible bonds | 3,300 | – | 3,300 | – | 3,300 | – | |
| - Share options | 1,858 | 600 | 1,858 | 600 | 1,858 | 600 | |
| | 27,612 | 20,100 | 27,612 | 20,100 | 27,612 | 20,100 | FRS 33(70)(b) |
| Diluted earnings/(loss) per share (\$ per share) | 1.16 | 0.87 | * | (0.02) | 1.16 | 0.85 | |

* Less than \$0.01

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Earnings per share ("EPS")

1. If the number of ordinary or potential ordinary shares increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split before the financial statements are authorised for issue, the basic and diluted EPS for all periods presented shall be adjusted retrospectively, even when this occurs after the balance sheet date.
2. If the reporting entity discloses, in addition to basic and diluted EPS, per share amounts using another measure of net profit, such amounts shall be calculated using the weighted average number of ordinary shares determined based on FRS 33. The basic and diluted per share amount shall be disclosed in the notes to the financial statements. A reconciliation shall be provided between the measure used and a line item reported in the statement of comprehensive income.

FRS 33(64)

FRS 33(73)

13. Cash and cash equivalents

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------------|---------------|---------------|----------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash at bank and on hand | 12,480 | 30,798 | 7,607 | 243 |
| Short-term bank deposits ¹ | 9,530 | 5,414 | 8,645 | 2,734 |
| | <u>22,010</u> | <u>36,212</u> | <u>16,252</u> | <u>2,977</u> |

For the purpose of presenting the consolidated statement of cash flows, cash and cash equivalents comprise the following:

FRS 7(45)

| | <u>Group</u> | |
|--|---------------|---------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Cash and bank balances (as above) | 22,010 | 36,212 |
| Less: Bank deposits pledged ² | (200) | (200) |
| Less: Bank overdrafts (Note 31) | (2,650) | (6,464) |
| Cash and cash equivalents per consolidated statement of cash flows | <u>19,160</u> | <u>29,548</u> |

FRS 7(8)

Bank deposits are pledged in relation to the security granted for certain borrowings. (Note 31(a)).

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Cash and cash equivalents

Cash equivalents for the purpose of presenting statement of cash flows

- Under FRS 7, cash equivalents are defined as “short-term highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value”. An investment normally qualifies as a cash equivalent when it has a short maturity of, say, three months or less from the date of acquisition.
- Bank deposits pledged as collateral shall not be included as cash and cash equivalents in the statement of cash flows.

FRS 7(7-9)

FRS 7(6)

The classification of the movement of cash subjected to restriction depends on the nature of the item and the restriction in force. For example, where the cash deposited is placed as collateral for a performance bond, the movement in the cash deposit would form part of operating cash flows.

Cash not available for use

- There may be circumstances in which cash and bank balances held by an entity are not available for use by the Group. An example is when a subsidiary operates in a country where exchange controls or other legal restrictions apply. When this occurs, the following disclosure can be considered:

FRS 7(49)

FRS 7(48)

“Included in cash and cash equivalents are bank deposits amounting to \$[] (2010: \$[]) which are not freely remissible for use by the Group because of currency exchange restrictions.”

Classification of borrowing costs capitalised into cost of qualifying assets

- The classification of payments of interest that are capitalised shall be classified in a manner consistent with the classification of the underlying asset to which those payments were capitalised. For example, payments of interest that are capitalised as part of cost of property, plant and equipment should be classified as part of an entity’s investing activities; payments of interest that are capitalised as part of the cost of inventories should be classified as part of an entity’s operating activities.

Notes to the Financial Statements

For the financial year ended 31 December 2011

13. Cash and cash equivalents (continued)

Acquisition and disposal of subsidiaries

Please refer to Note 47 for the effects of acquisitions of subsidiaries on the cash flows of the Group.

DV

On 28 June 2011, the Company disposed of its entire interest in PwC Logistics Pte Ltd for a cash consideration of \$983,000. Please refer to Note 41(b) for details of additional consideration receivable. The effects of the disposal on the cash flows of the Group were¹:

| | <u>Group</u> 2011 \$'000 | |
|--|--------------------------------|--------------|
| <i><u>Carrying amounts of assets and liabilities disposed of</u></i> | | |
| Cash and cash equivalents | (804) | FRS 7(40)(c) |
| Trade and other receivables | (4,404) | FRS 7(40)(d) |
| Property, plant and equipment (Note 28) | (1,380) | FRS 7(40)(d) |
| Goodwill (Note 29(a)) | (100) | FRS 7(40)(d) |
| Other current assets | (114) | FRS 7(40)(d) |
| Total assets | <u>(6,802)</u> | |
| Trade and other payables | 1,257 | FRS 7(40)(d) |
| Current income tax liabilities (Note 10(b)) | 80 | FRS 7(40)(d) |
| Deferred income tax liabilities (Note 36) | 2,037 | FRS 7(40)(d) |
| Total liabilities | <u>3,374</u> | |
| Net assets derecognised | (3,428) | |
| Less: Non-controlling interests | 300 | |
| Net assets disposed of | <u>(3,128)</u> | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

13. Cash and cash equivalents (continued)

Acquisition and disposal of subsidiaries (continued)

The aggregate cash inflows arising from the disposal of PwC Logistics Pte Ltd were¹:

| | Group | |
|--|---------|----------------|
| | 2011 | |
| | \$'000 | |
| Net assets disposed of (as above) | 3,128 | |
| – Reclassification of currency translation reserve (Note 38(b)(v)) | (1,200) | |
| | 1,928 | |
| Loss on disposal (Note 8) | (945) | FRS 7(40)(a,b) |
| Cash proceeds from disposal | 983 | FRS 7(40)(c) |
| Less: Cash and cash equivalents in subsidiaries disposed of | (804) | |
| Net cash inflow on disposal | 179 | |

Guidance notes

Cash and cash equivalents

Acquisition and disposal of subsidiaries

- Where the reporting entity acquires another subsidiary in the preceding financial year, the comparative information in respect of the assets acquired, liabilities assumed and related cash flows shall be disclosed. The same applies to disposal.

FRS 1(38)

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

FRS 107
(27(b),31,34(c))

| | 2011 | Group | 2010 | |
|--|--------|-------|--------|--------------------|
| | \$'000 | | \$'000 | |
| <i>Held for trading</i> | | | | |
| Listed securities: | | | | |
| – Equity securities - Singapore ¹ | 5,850 | | 4,023 | |
| – Equity securities - US ¹ | 3,997 | | 4,303 | |
| | 9,847 | | 8,326 | FRS 107(8)(a)(iii) |
| <i>At fair value on initial recognition</i> | | | | |
| Listed securities: | | | | |
| – Equity securities - US ¹ | 938 | | – | FRS 107(8)(a)(i) |
| | 10,785 | | 8,326 | |

Guidance notes

Financial assets, at fair value through profit or loss

- Information such as in which countries the equity securities are listed, and the interest rates and maturity dates of the debt securities shall be disclosed if the information is material to enable the users to evaluate the nature and extent of risks arising from those financial assets.

FRS 107(31)

Notes to the Financial Statements

For the financial year ended 31 December 2011

15. Derivative financial instruments

| | ← Group → | | | ← Company → | | | |
|--------------------------------|--|-----------------|---------------------|--|-----------------|---------------------|--------------------------------------|
| | Contract notional amount \$'000 | Fair value | | Contract notional amount \$'000 | Fair value | | |
| | | Asset \$'000 | Liability \$'000 | | Asset \$'000 | Liability \$'000 | |
| 2011 | | | | | | | |
| <i>Cash-flow hedges</i> | | | | | | | |
| - Interest rate swaps | 30,324 | 645 | – | – | – | – | FRS 107(31) |
| - Currency forwards | 52,120 | 50 | (535) | – | – | – | FRS 107(22)(a,b) FRS 107(22)(a,b) |
| <i>Fair-value hedges</i> | | | | | | | |
| - Currency forwards | 3,200 | 359 | (40) | 2,220 | 266 | (47) | FRS 107(22)(a,b) |
| Derivatives held for hedging | | 1,054 | (575) | | 266 | (47) | |
| <i>Non-hedging instruments</i> | | | | | | | |
| - Currency forwards | 2,108 | 410 | – | – | – | – | |
| Total | | 1,464 | (575) | | 266 | (47) | |
| Less: Current portion | | (1,069) | 440 | | (232) | 35 | FRS 1(66, 69) |
| Non-current portion | | 395 | (135) | | 34 | (12) | |
| 2010 | | | | | | | |
| <i>Cash-flow hedges</i> | | | | | | | |
| - Interest rate swaps | 53,839 | 245 | – | – | – | – | FRS 107(22)(a,b) |
| - Currency forwards | 20,080 | 60 | (255) | – | – | – | FRS 107(22)(a,b) |
| <i>Fair-value hedges</i> | | | | | | | |
| - Currency forwards | 1,804 | 149 | – | 1,200 | 84 | (47) | FRS 107(22)(a,b) |
| Derivatives held for hedging | | 454 | (255) | | 84 | (47) | |
| <i>Non-hedging instruments</i> | | | | | | | |
| - Currency forwards | 1,023 | 110 | (29) | – | – | – | |
| Total | | 564 | (284) | | 84 | (47) | |
| Less: Current portion | | (452) | 240 | | (78) | 45 | FRS 1(66, 69) |
| Non-current portion | | 112 | (44) | | 6 | (2) | |

Period when the cash flows on cash flow hedges are expected to occur or affect profit or loss

FRS 107(23)(a)

(a) Interest rate swaps

Interest rate swaps are transacted to hedge variable quarterly interest payments on borrowings that will mature on 31 December 2013. Fair value gains and losses on the interest rate swaps recognised in the other comprehensive income are reclassified to profit or loss as part of interest expense over the period of the borrowings.

FRS 39(100)

Notes to the Financial Statements

For the financial year ended 31 December 2011

15. Derivative financial instruments (continued)

(b) Currency forwards

Currency forwards are transacted to hedge highly probable forecast transactions denominated in foreign currency expected to occur at various dates within three months from the balance sheet date. The currency forwards have maturity dates that coincide within the expected occurrence of these transactions. Gains and losses recognised in other comprehensive income prior to the occurrence of these transactions are reclassified to profit or loss in the period or periods during which the hedged forecast transaction affects profit or loss. This is generally within three months from the balance sheet date except for those forwards used to hedge highly probable forecast foreign currency purchases of property, plant and equipment, whose gains and losses are included in the cost of the assets and recognised in profit or loss over their estimated useful lives as part of depreciation expense.

FRS 39(100)

FRS 39(98)

Notes to the Financial Statements

For the financial year ended 31 December 2011

16. Available-for-sale financial assets

| | <u>Group</u> | | <u>Company</u> | | DV |
|--|----------------|---------------|----------------|--------------|--------------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Beginning of financial year | 12,937 | 11,958 | 1,218 | 1,124 | |
| Currency translation differences ¹ | 47 | 200 | – | – | |
| Acquisition of subsidiary (Note 47) | 473 | – | – | – | |
| Additions | 3,956 | 691 | 316 | – | |
| Fair value gains/(losses) recognised in other comprehensive income (Note 38(b)(iii)) | 710 | 88 | (34) | 94 | FRS 107(20)(a)(ii) |
| Impairment losses (Note 8) | (575) | – | – | – | FRS 107(20)(e) |
| Disposals | (300) | – | – | – | |
| End of financial year | 17,248 | 12,937 | 1,500 | 1,218 | FRS 107(8)(d) |
| Less: Current portion | (1,950) | (646) | – | – | FRS 1(66) |
| Non-current portion | 15,298 | 12,291 | 1,500 | 1,218 | FRS 1(66) |

Available-for-sale financial assets are analysed as follows:

FRS 107 (27)(b),31,34(c))

| | <u>Group</u> | | <u>Company</u> | |
|--|---------------|---------------|----------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Listed securities | | | | |
| - Equity securities - Singapore ² | 7,885 | 5,587 | 1,500 | 1,218 |
| - Equity securities - US ² | 3,728 | 2,086 | – | – |
| - SGD corporate fixed rate notes of 4% due 27 August 2013 ² | 288 | – | – | – |
| | 11,901 | 7,673 | 1,500 | 1,218 |
| Unlisted securities | | | | |
| - SGD corporate variable rate notes due 30 November 2013 ² | 5,347 | 5,264 | – | – |
| Total | 17,248 | 12,937 | 1,500 | 1,218 |

The fair values of unlisted debt securities are based on cash flows discounted at rates based on the market interest rates adjusted for risk premiums specific to the securities (2011: 4.2%, 2010: 4.0%).

FRS 107(27)(a,b)

During the financial year, the Group recognised an impairment loss of \$575,000 (2010: Nil) against an equity security in Singapore whose trade prices had been below cost for a prolonged period.

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Available-for-sale financial assets

- These currency translation differences arise from debt securities. Please refer to Accounting Policy Note 2.12(d).
- Information such as in which countries the equity securities are listed, and the interest rates and maturity dates of the debt securities shall be disclosed if the information is material to enable the users to evaluate the nature and extent of risks arising from those financial assets.

FRS 107(31)

FRS 107(31)

17. Trade and other receivables – current

FRS 1(77,78(b))

| | <u>Group</u> | | <u>Company</u> | | |
|---|--------------|---------|----------------|--------|---------------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Finance lease receivables (Note 21) | 156 | 218 | – | – | FRS 17(47)(a) |
| Trade receivables | | | | | FRS 24(18(b),24) |
| - Associated companies | 188 | 217 | – | – | FRS 24(19)(d) |
| - Subsidiaries | – | – | 1,200 | 600 | FRS 24(19)(c) |
| - Non-related parties | 17,240 | 14,779 | 6,412 | 1,531 | FRS 1(78)(b) |
| | 17,428 | 14,996 | 7,612 | 2,131 | |
| Less: Allowance for impairment of receivables - non-related parties | (509) | (470) | (100) | (50) | |
| Trade receivables - net | 16,919 | 14,526 | 7,512 | 2,081 | |
| Construction contracts | | | | | |
| - Due from customers (Note 19) | 1,384 | 1,188 | – | – | FRS 11(42)(a) |
| - Retentions (Note 19) | 60 | 40 | – | – | FRS 11(40)(c) |
| | 1,444 | 1,228 | – | – | |
| Loan to an associated company | 2,668 | 1,276 | – | – | FRS 24(18(b),19(d)) |
| Less: Non-current portion (Note 20) | (2,322) | (1,240) | – | – | |
| | 346 | 36 | – | – | |
| Staff loans (Note 22) | 60 | 25 | 30 | 20 | |
| Deposits | 345 | 221 | – | – | |
| Pre-payments | 200 | 105 | 50 | 50 | |
| Other receivables | 40 | 40 | 20 | 15 | |
| | 19,510 | 16,399 | 7,612 | 2,166 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

17. Trade and other receivables – current (continued)

Certain subsidiaries of the Group have factored trade receivables with carrying amounts of \$1,260,000 (2010: \$1,340,000) to a bank in exchange for cash during the financial year ended 31 December 2011. The transaction has been accounted for as a collateralised borrowing as the bank has full recourse to those subsidiaries in the event of default by the debtors (Note 31(a)).

FRS 107 (14)

The loan to an associated company, PwC A Property (Hong Kong) Limited, is unsecured and repayable in full by 1 January 2013. Interest is fixed at 2.2% per annum.

FRS 24(18)(b)

FRS 107(31)

18. Inventories

FRS 1(78)(c)

FRS 2(36)(b)

| | <u>Group</u> | | <u>Company</u> | |
|------------------------|---------------|---------------|----------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Raw materials | 7,622 | 7,612 | – | – |
| Work-in-progress | 1,810 | 1,796 | – | – |
| Finished/trading goods | 14,826 | 7,686 | 2,200 | 335 |
| | <u>24,258</u> | <u>17,094</u> | <u>2,200</u> | <u>335</u> |

FRS 2(37)

FRS 2(37)

FRS 2(37)

The cost of inventories recognised as an expense and included in “cost of sales” amounts to \$37,842,000 (2010: \$20,738,000).

FRS 2(36)(d), 38)

Inventories of \$1,200,000 (2010: \$1,000,000) of the Group and \$600,000 (2010: \$300,000) of the Company have been pledged as security for bank overdrafts of the Group and the Company (Note 31(a)).

FRS 2(36)(h)

The Group has recognised a reversal of \$200,000 (2010: Nil), being part of an inventory write-down made in 2010, as the inventories were sold above the carrying amounts in 2011.

FRS 2(36)(f,g)

Notes to the Financial Statements

For the financial year ended 31 December 2011

19. Construction contracts

| | 2011 \$'000 | Group 2010 \$'000 | |
|--|--------------------|-------------------------|---------------|
| <i>Construction contract work-in-progress:</i> | | | |
| Beginning of financial year | 147 | 347 | DV |
| Contract costs incurred | 13,847 | 8,991 | DV |
| Contract expenses recognised in profit or loss | (13,732) | (9,191) | DV |
| End of financial year | 262 | 147 | |
| Aggregate costs incurred and profits recognised (less losses recognised) to date on uncompleted construction contracts | 32,067 (30,763) | 23,325 (22,197) | FRS 11(40)(a) |
| Less: Progress billings | 1,304 | 1,128 | |
| Presented as: | | | |
| Due from customers on construction contracts ¹ (Note 17) | 1,384 | 1,188 | FRS 11(42)(a) |
| Due to customers on construction contracts ¹ (Note 30) | (80) | (60) | FRS 11(42)(b) |
| | 1,304 | 1,128 | |
| Advances received on construction contracts (Note 30) | 541 | 262 | FRS 11(40)(b) |
| Retentions on construction contracts (Note 17) | 60 | 40 | FRS 11(40)(c) |

Guidance notes

Construction contracts

- The determination of amounts due to and from customers on construction contracts shall be made on a contract-by-contract basis. These balances shall not be set off against each other. These balances are monetary items in nature and will need to be translated at closing rates at the balance sheet date if they are denominated in foreign currencies.

FRS 11(42)

FRS 21(23)(a)

Notes to the Financial Statements

For the financial year ended 31 December 2011

20. Trade and other receivables – non-current

FRS 1(77,78(b))

| | <u>Group</u> | | <u>Company</u> | | |
|---|--------------|--------------|----------------|--------------|------------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Finance lease receivables (Note 21) | 600 | 600 | – | – | FRS 17(47)(a) |
| Other receivables | | | | | FRS 24(18(b),24) |
| - Loan to an associated company (Note 17) | 2,322 | 1,240 | – | – | FRS 24(19)(d) |
| - Loans to subsidiaries | – | – | 2,986 | 3,100 | FRS 24(19)(c) |
| - Staff loans (Note 22) | 200 | 150 | 150 | 100 | |
| - Indemnification asset (Note 47) | 200 | – | – | – | |
| | <u>3,322</u> | <u>1,990</u> | <u>3,136</u> | <u>3,200</u> | |

The loans to subsidiaries by the Company are unsecured, interest-bearing at the three-month deposit rate plus 1.5% and will be repayable in full on 31 December 2013.

FRS 24(18)(b)(i)

FRS 107(31)

The fair values of non-current trade and other receivables are computed based on cash flows discounted at market borrowing rates. The fair values and the market borrowing rates used are as follows:

FRS 107(25, 27(a,b))

| | <u>Group</u> | | <u>Company</u> | | <u>Borrowing Rates</u> | |
|-------------------------------|--------------|------------|----------------|------------|------------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 | % | % |
| Finance lease receivables | 590 | 610 | – | – | 7.1% | 6.8% |
| Loan to an associated company | 2,400 | 1,300 | – | – | 7.3% | 7.3% |
| Loans to subsidiaries | – | – | 2,986 | 3,100 | 6.5% | 6.3% |
| Staff loans | <u>205</u> | <u>152</u> | <u>155</u> | <u>106</u> | <u>7.5%</u> | <u>7.4%</u> |

Notes to the Financial Statements

For the financial year ended 31 December 2011

21. Finance lease receivables

The Group leases equipment to non-related parties under finance leases. The various agreements terminate between 2012 and 2017, and the non-related parties have options to extend the leases at market rates.

FRS 17(47)(f)

| | <u>Group</u> | | |
|---|--------------|--------------|---------------|
| | 2011 | 2010 | |
| | \$'000 | \$'000 | |
| Gross receivables due | | | FRS 17(47)(a) |
| - Not later than one year | 236 | 316 | |
| - Later than one year but within five years | 700 | 600 | |
| - Later than five years | 146 | 147 | |
| | <u>1,082</u> | <u>1,063</u> | |
| Less: Unearned finance income | (326) | (245) | FRS 17(47)(b) |
| Net investment in finance leases | <u>756</u> | <u>818</u> | |

The net investment in finance leases is analysed as follows:

FRS 17(47)(a)

| | <u>Group</u> | | |
|---|--------------|------------|--|
| | 2011 | 2010 | |
| | \$'000 | \$'000 | |
| Not later than one year (Note 17) | 156 | 218 | |
| Later than one year but within five years (Note 20) | 600 | 600 | |
| | <u>756</u> | <u>818</u> | |

22. Staff loans

| | <u>Group</u> | | <u>Company</u> | | |
|---|--------------|------------|----------------|------------|----|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Receivables due | | | | | DV |
| - Not later than one year (Note 17) | 60 | 25 | 30 | 20 | |
| - Later than one year but within five years (Note 20) | 200 | 150 | 150 | 100 | |
| | <u>260</u> | <u>175</u> | <u>180</u> | <u>120</u> | |

Staff loans include the following loan made to a member of key management personnel of the Group. The loan is unsecured, interest free and repayable in full by 2013.

FRS 24(18,24)

| | <u>Group</u> | | <u>Company</u> | | |
|---|--------------|-----------|----------------|-----------|--|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Not later than one year | 20 | 20 | 20 | 20 | |
| Later than one year but within five years | 15 | 35 | 15 | 35 | |
| | <u>35</u> | <u>55</u> | <u>35</u> | <u>55</u> | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

23. Investments in associated companies

| | <u>Group</u> | | <u>Company</u> | |
|--|----------------|----------------|----------------|----------------|
| | 2011 \$'000 | 2010 \$'000 | 2011 \$'000 | 2010 \$'000 |
| Equity investment at cost | | | <u>1,000</u> | <u>1,000</u> |
| Beginning of financial year | 8,569 | 8,133 | | |
| Currency translation differences | (603) | 291 | | |
| Acquisition of subsidiary (Note 47) | 389 | – | | |
| Share of (losses)/profits ¹ | (174) | 145 | | FRS 28(38) |
| Share of movement in fair value reserve (Note 38(b)(iii)) | 27 | – | | FRS 28(39) |
| End of financial year | <u>8,208</u> | <u>8,569</u> | | FRS 28(38) |

The summarised financial information of associated companies, not adjusted for the proportion of ownership interest held by the Group, is as follows^{2,3,4}:

| | | |
|---------------------|--------------|------------|
| - Assets | 59,774 | 36,918 |
| - Liabilities | 46,401 | 23,674 |
| - Revenue | 65,865 | 45,013 |
| - Net (loss)/profit | <u>(500)</u> | <u>800</u> |

| | | | |
|---|------------|------------|---------------|
| Share of associated companies' contingent liabilities incurred jointly with other investors | <u>106</u> | <u>240</u> | FRS 28(40)(a) |
|---|------------|------------|---------------|

| | | | |
|--|-----------|------------|---------------|
| Contingent liabilities relating to liabilities of associates for which the Company is severally liable | <u>60</u> | <u>100</u> | FRS 28(40)(b) |
|--|-----------|------------|---------------|

Goodwill amounting to \$1,020,000 (2010: \$1,020,000) is included in the carrying amount of investments in associated companies.

DV

The Group has not recognised its share of losses of an associated company amounting to \$15,000 (2010: \$5,000) because the Group's cumulative share of losses exceeds its interest in that entity⁵ and the Group has no obligation in respect of those losses. The cumulative unrecognised losses amount to \$27,000 (2010: \$12,000) at the balance sheet date.

FRS 28(37)(g)

The Group has not recognised its share of profits for the financial year of another associated company amounting to \$13,000 (2010: \$20,000) because the Group's cumulative share of unrecognised losses with respect to that entity amounts to \$25,000 (2010: \$38,000) at the balance sheet date.

FRS 28(37)(g)

The Group's investments in associated companies include investments in listed associated companies with a carrying amount of \$800,000 (2010: \$800,000), for which the published price quotations are \$1,440,000 (2010: \$1,250,000) at the balance sheet date.

FRS 28(37)(a)

Details of significant associated companies are provided in Note 51.

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Investments in associated companies

Cumulative preference shares issued by associated company

1. If the associated company has cumulative preference shares that are held by parties outside the Group and that are classified as equity, the investor computes its share of results after adjusting for the dividends on such shares, whether or not the dividends have been declared.

FRS 28(28)

Summarised financial information of associated companies

2. An alternative method of presenting summarised financial information is to disclose the Group's proportionate share instead of the gross amounts of assets, liabilities and results as recorded in the associated companies' financial statements. The alternative method is recommended when the reporting entity has several associated companies with differing interests.
3. FRS 28 is also silent as to whether summarised financial information should be based on the book values of the assets and liabilities in the financial statement of the associate or their carrying values notionally recognised by the Group as a result of the notional purchase price allocation. Either approach is acceptable, provided that it is consistently applied.
4. Summarised financial information can be based on the book values in the financial statement of the associate or the carrying value notionally recognised by the Group as a result of the notional purchase price allocation. This needs to be consistently applied.

FRS 28(37)(i)

Interest in an associated company

5. The interest in an associated company is the carrying amount of the investment in the associated company together with any long-term interests that, in substance, form part of the investor's net investment in the associated company. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associated company.

FRS 28(29)

Notes to the Financial Statements

For the financial year ended 31 December 2011

24. Investment in a joint venture

The Company has a 60% equity interest at a cost of \$880,000 (2010: \$880,000) in PwC JV Logistics (PRC) Ltd ("PwC JV Logistics"), which provides freight forwarding and warehousing services in the People's Republic of China. PwC JV Logistics is deemed to be a joint venture of the Company as the appointment of its directors and the allocation of voting rights for key business decisions require the unanimous approval of its venturers¹.

FRS 31(56)

The following amounts represent the Group's 60% share of the assets and liabilities and income and expenses of the joint venture which are included in the consolidated balance sheet and statement of comprehensive income using the line-by-line format of proportionate consolidation^{2,3}:

FRS 31(56)

| | <u>Group</u> | |
|---|----------------|----------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Assets | | |
| - Current assets | 803 | 717 |
| - Non-current assets | 2,730 | 2,124 |
| | <u>3,533</u> | <u>2,841</u> |
| Liabilities | | |
| - Current liabilities | (388) | (406) |
| - Non-current liabilities | (1,081) | (1,073) |
| | <u>(1,469)</u> | <u>(1,479)</u> |
| Net assets | <u>2,064</u> | <u>1,362</u> |
| Sales | 1,100 | 778 |
| Expenses | (354) | (509) |
| Profit before tax | 746 | 269 |
| Income tax | (224) | (160) |
| Profit after tax | <u>522</u> | <u>109</u> |
| Operating cash inflows | 640 | 560 |
| Investing cash (outflows)/inflows | (40) | 70 |
| Financing cash outflows | (20) | (110) |
| Total cash inflows | <u>580</u> | <u>520</u> |
| Capital commitments in relation to interest in joint venture | <u>-</u> | <u>250</u> |
| Proportionate interest in joint venture's capital commitments | <u>90</u> | <u>92</u> |

DV

FRS 7(50)(b)

FRS 31(55)(a)

FRS 31(55)(b)

Details of the joint venture are included in Note 51.

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Investment in a joint venture

Legal subsidiary not required to be consolidated

1. Under the Companies Act, a company is a subsidiary of another company if the latter owns more than 50% of the equity interest in the former. This definition is different from FRS 27, which defines subsidiary as an entity that is controlled by another entity. Accordingly, the Accounting and Corporate Regulatory Authority (“ACRA”) issued Practice Direction No. 4 of 2006 to clarify that:
 - (a) a parent (under FRS 27) which is not a holding company (under the Companies Act) must prepare consolidated accounts in accordance with FRS 27 as mandated by the Companies Act;
 - (b) a holding company (under the Companies Act) which is also a parent (under FRS 27) must prepare consolidated accounts in accordance with FRS 27 as mandated by the Companies Act; and
 - (c) a holding company (under the Companies Act) which is not a parent (under FRS 27) must incorporate financial information relating to its legal subsidiaries in its financial statements in accordance with the relevant FRS (FRS 28, 31 or 39).

CA 5(1)
FRS 27(4)

The above is possible because ACRA’s interpretation of the term “consolidated accounts” in Section 201(3A) of the Companies Act is not restricted to the meaning of consolidated financial statements under FRS 27. Instead, the phrase “consolidated accounts” is viewed wide enough to include the incorporation of the financial information of a legal subsidiary as accounted for in accordance with FRS 28, 31 or 39.

Summarised financial information of joint ventures

2. Where the reporting entity is a venturer that is exempted under paragraph 2 of FRS 31 from applying proportionate consolidation or equity accounting for its investments in joint ventures and elects to use that exemption, the summarised financial information of the joint ventures need not be disclosed in the venturer’s separate financial statements. This disclosure shall be made in the consolidated financial statements only when the joint ventures are either proportionately consolidated or equity accounted for. This treatment is different from that applicable to associated companies.
3. The reporting entity must also present the summarised financial information of joint ventures based on the Group’s proportionate interests in the joint ventures. There is no option to present the items at their gross amounts, unlike associated companies.

FRS 31(2)

FRS 31(56)

FRS 31(56)

25. Investments in subsidiaries

| | Company | |
|-----------------------------------|---------------|---------------|
| | 2011 | 2010 |
| | \$’000 | \$’000 |
| <i>Equity investments at cost</i> | | |
| Beginning of financial year | 96,460 | 96,460 |
| Disposal | (300) | – |
| End of financial year | <u>96,160</u> | <u>96,460</u> |

DV

Details of significant subsidiaries are included in Note 51.

Notes to the Financial Statements

For the financial year ended 31 December 2011

26. Investment properties

| | 2011 \$'000 | Group 2010 \$'000 | |
|--|----------------|-------------------------|---------------|
| Beginning of financial year | 5,455 | 3,365 | FRS 40(76) |
| Additions | – | 2,040 | |
| Improvements | 288 | – | |
| Disposals | (70) | – | |
| Net fair value (loss)/gain recognised in profit or loss (Note 8) | (123) | 50 | FRS 40(76)(d) |
| End of financial year | 5,550 | 5,455 | FRS 40(76) |

Investment properties are carried at fair values¹ at the balance sheet date as determined by independent professional valuers. Valuations are made annually based on the properties' highest-and-best-use using the Direct Market Comparison Method. FRS 40(75)(d,e)

Investment properties are leased to non-related parties under operating leases (Note 42(c)). FRS 17(56)(c)
FRS 17(57)

Certain investment properties are mortgaged to secure bank loans (Note 31(a)). FRS 40(75)(g)

The following amounts are recognised in profit and loss:

| | 2011 \$'000 | Group 2010 \$'000 | |
|---|----------------|-------------------------|--------------------|
| Rental income (Note 7) | 488 | 146 | FRS 40(75)(f)(i) |
| Direct operating expenses arising from: | | | |
| - Investment properties that generated rental income | (30) | (6) | FRS 40(75)(f)(ii) |
| - Investment properties that did not generate rental income | (40) | (8) | FRS 40(75)(f)(iii) |

Guidance notes

Investment properties

Adjustment to fair value

- When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example, to avoid double-counting for assets or liabilities that are recognised as separate assets and liabilities, the entity shall disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of each type of significant adjustment.

FRS 40(50,77)

Notes to the Financial Statements

For the financial year ended 31 December 2011

27. Held-to-maturity financial assets - non-current

| | 2011 \$'000 | Group 2010 \$'000 | |
|---|----------------|-------------------------|-------------------|
| Unlisted debt securities | | | FRS 107(31,34(c)) |
| - Bonds with fixed interest of 5.5% and maturity date of 31 May 2018 - Singapore | 1,650 | 1,593 | |
| - Bonds with variable interest rates and maturity date of 28 June 2013 - Singapore | 472 | – | FRS 1(65) |
| | <u>2,122</u> | <u>1,593</u> | FRS 107(8)(b) |

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

FRS 107(25)

| | 2011 \$'000 | Group 2010 \$'000 |
|---|----------------|-------------------------|
| Bonds with fixed interest of 5.5% and maturity date of 31 May 2018 | 1,720 | 1,612 |
| Bonds with variable interest rates and maturity date of 28 June 2013 | 475 | – |

The fair values are based on discounted cash flows using market interest rates for an equivalent bond as at the balance sheet date, as follows:

FRS 107(27)(a,b)

| | 2011 | Group 2010 |
|---|------|---------------|
| Bonds with fixed interest of 5.5% and maturity date of 31 May 2018 | 5.0% | 5.2% |
| Bonds with variable interest rates and maturity date of 28 June 2013 | 6.5% | – |

Notes to the Financial Statements

For the financial year ended 31 December 2011

28. Property, plant and equipment

| | Freehold land \$'000 | Leasehold land \$'000 | Buildings \$'000 | Plant and equipment \$'000 | Motor vehicles \$'000 | Assets under construction \$'000 | Total \$'000 | |
|---|----------------------------|-----------------------------|---------------------|----------------------------------|-----------------------------|---|-----------------|--------------------------------|
| | | | | | | | | FRS 1(78)(a) |
| Group | | | | | | | | |
| 2011 | | | | | | | | |
| <i>Cost or valuation</i> | | | | | | | | |
| Beginning of financial year | | | | | | | | FRS 16(73)(d) |
| Cost | – | – | – | 84,703 | 2,700 | – | 87,403 | FRS 16(73)(a) |
| Valuation | 8,400 | 8,061 | 21,453 | – | – | – | 37,914 | FRS 16(73)(a) |
| | 8,400 | 8,061 | 21,453 | 84,703 | 2,700 | – | 125,317 | FRS 16(73)(d) |
| Currency translation differences | – | 314 | (808) | 4,509 | 103 | – | 4,118 | FRS 16(73)(e)(viii) |
| Acquisition of subsidiary ⁵ | – | 12,012 | 37,060 | 18,199 | 513 | – | 67,784 | FRS 16(73)(e)(iii) |
| Additions | – | 3,423 | 3,703 | 2,202 | 427 | 360 | 10,115 | FRS 16(73)(e)(i) |
| Reclassified to disposal group | – | – | – | (1,842) | – | – | (1,842) | FRS 16(73)(e)(ii) |
| Disposals ¹ | – | (594) | (1,526) | (4,887) | – | – | (7,007) | FRS 16(73)(e)(ii) |
| Revaluation surplus ² (Note 38(b)(vii)) | 50 | 93 | 110 | – | – | – | 253 | FRS 16(73)(e)(iv) |
| Revaluation adjustments ² | – | (455) | (970) | – | – | – | (1,425) | FRS 16(73)(e)(iv) |
| End of financial year | 8,450 | 22,854 | 59,022 | 102,884 | 3,743 | 360 | 197,313 | FRS 16(73)(d) |
| Representing: | | | | | | | | |
| Cost | – | – | – | 102,884 | 3,743 | 360 | 106,987 | FRS 16(73)(a) |
| Valuation | 8,450 | 22,854 | 59,022 | – | – | – | 90,326 | FRS 16(73)(a), SGX 1207(10) |
| | 8,450 | 22,854 | 59,022 | 102,884 | 3,743 | 360 | 197,313 | FRS 16(73)(d) |
| <i>Accumulated depreciation and impairment losses</i> | | | | | | | | |
| Beginning of financial year | – | – | – | 26,177 | 1,250 | – | 27,427 | FRS 16(73)(d) |
| Currency translation differences | – | – | – | 808 | 87 | – | 895 | FRS 16(73)(e)(viii) |
| Depreciation charge | | | | | | | | FRS 16(73)(e)(vii) |
| - Continuing operations (Note 5) | – | 489 | 1,056 | 15,436 | 694 | – | 17,675 | |
| - Discontinued operations | – | – | – | 79 | – | – | 79 | |
| Reclassified to disposal group | – | – | – | (279) | – | – | (279) | FRS 16(73)(e)(ii) |
| Disposals ¹ | – | (34) | (86) | (550) | – | – | (670) | FRS 16(73)(e)(ii) |
| Revaluation adjustments ² | – | (455) | (970) | – | – | – | (1,425) | FRS 16(73)(e)(iv) |
| End of financial year | – | – | – | 41,671 | 2,031 | – | 43,702 | FRS 16(73)(d) |
| Net book value | | | | | | | | |
| End of financial year | 8,450 | 22,854 | 59,022 | 61,213 | 1,712 | 360 | 153,611 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

28. Property, plant and equipment (continued)

| | Freehold land \$'000 | Leasehold land \$'000 | Buildings \$'000 | Plant and equipment \$'000 | Motor vehicles \$'000 | Assets under construction \$'000 | Total \$'000 | FRS 1(78)(a) |
|---|----------------------------|-----------------------------|---------------------|----------------------------------|-----------------------------|---|-----------------|---|
| Group | | | | | | | | |
| 2010 | | | | | | | | |
| <i>Cost or valuation</i> | | | | | | | | |
| Beginning of financial year | | | | | | | | FRS 16(73)(d) |
| Cost | – | – | – | 87,450 | 2,362 | – | 89,812 | FRS 16(73)(a) |
| Valuation | 8,300 | 8,059 | 19,851 | – | – | – | 36,210 | FRS 16(73)(a) |
| | 8,300 | 8,059 | 19,851 | 87,450 | 2,362 | – | 126,022 | FRS 16(73)(d) |
| Currency translation differences | – | (122) | (272) | (1,073) | (53) | – | (1,520) | FRS 16(73)(e)(viii) FRS 16(73)(e)(i) |
| Additions | – | – | 1,588 | 4,063 | 391 | – | 6,042 | FRS 16(73)(e)(ii) |
| Disposals ¹ | – | – | – | (5,737) | – | – | (5,737) | |
| Revaluation surplus ² (Note 38(b)(vii)) | 100 | 235 | 798 | – | – | – | 1,133 | FRS 16(73)(e)(iv) FRS 16(73)(e)(iv) |
| Revaluation adjustments ² | – | (111) | (512) | – | – | – | (623) | FRS 16(73)(d) |
| End of financial year | 8,400 | 8,061 | 21,453 | 84,703 | 2,700 | – | 125,317 | |
| <i>Representing:</i> | | | | | | | | |
| Cost | – | – | – | 84,703 | 2,700 | – | 87,403 | FRS 16(73)(a) SGX 1207(10) |
| Valuation | 8,400 | 8,061 | 21,453 | – | – | – | 37,914 | FRS 16(73)(d) |
| | 8,400 | 8,061 | 21,453 | 84,703 | 2,700 | – | 125,317 | |
| <i>Accumulated depreciation and impairment losses</i> | | | | | | | | |
| Beginning of financial year | – | 48 | 69 | 20,822 | 755 | – | 21,694 | FRS 16(73)(d) |
| Currency translation differences | – | (12) | (18) | (489) | (37) | – | (556) | FRS 16(73)(e)(viii) FRS 16(73)(e)(vii) |
| Depreciation charge | | | | | | | | |
| - Continuing operations (Note 5) | – | 75 | 461 | 8,514 | 532 | – | 9,582 | |
| - Discontinued operations | – | – | – | 80 | – | – | 80 | |
| Reclassified to disposal group | – | – | – | (279) | – | – | (279) | FRS 16(73)(e)(ii) |
| Disposals ¹ | – | – | – | (2,750) | – | – | (2,750) | FRS 16(73)(e)(iv) |
| Revaluation adjustments ² | – | (111) | (512) | – | – | – | (623) | FRS 16(73)(d) |
| End of financial year | – | – | – | 26,177 | 1,250 | – | 27,427 | |
| <i>Net book value</i> | | | | | | | | |
| End of financial year | 8,400 | 8,061 | 21,453 | 58,526 | 1,450 | – | 97,890 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

28. Property, plant and equipment (continued)

| | Plant and equipment \$'000 | Motor vehicles \$'000 | Total \$'000 | FRS 1(78)(a) |
|---------------------------------|----------------------------------|-----------------------------|-----------------|--------------------|
| Company | | | | |
| 2011 | | | | |
| <i>Cost</i> | | | | FRS 16(73)(a) |
| Beginning of financial year | 432 | 50 | 482 | FRS 16(73)(d) |
| Additions | 328 | 180 | 508 | FRS 16(73)(e)(i) |
| Disposals | (55) | – | (55) | FRS 16(73)(e)(ii) |
| End of financial year | 705 | 230 | 935 | FRS 16(73)(d) |
| <i>Accumulated depreciation</i> | | | | |
| Beginning of financial year | 62 | 20 | 82 | FRS 16(73)(d) |
| Depreciation charge | 14 | 4 | 18 | FRS 16(73)(e)(vii) |
| Disposals | (20) | – | (20) | FRS 16(73)(e)(vii) |
| End of financial year | 56 | 24 | 80 | FRS 16(73)(d) |
| Net book value | | | | |
| End of financial year | 649 | 206 | 855 | |
| 2010 | | | | |
| <i>Cost</i> | | | | FRS 16(73)(a) |
| Beginning of financial year | 432 | – | 432 | FRS 16(73)(d) |
| Additions | – | 50 | 50 | FRS 16(73)(e)(i) |
| End of financial year | 432 | 50 | 482 | FRS 16(73)(d) |
| <i>Accumulated depreciation</i> | | | | |
| Beginning of financial year | 27 | – | 27 | FRS 16(73)(d) |
| Depreciation charge | 35 | 20 | 55 | FRS 16(73)(e)(vii) |
| End of financial year | 62 | 20 | 82 | FRS 16(73)(d) |
| Net book value | | | | |
| End of financial year | 370 | 30 | 400 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

28. Property, plant and equipment (continued)

- (a) Included within additions to the consolidated financial statements are plant and equipment, and motor vehicles acquired under finance leases amounting to \$400,000 (2010: Nil) and \$150,000 (2010: Nil) respectively.

FRS 7(43)

The carrying amounts of plant and equipment, and motor vehicles held under finance leases are \$745,000 (2010: \$450,000) and \$180,000 (2010: Nil) respectively at the balance sheet date⁴.

FRS 17(31)(a)

- (b) The freehold and leasehold land and buildings of the Group and the Company were valued by an independent professional valuer based on the properties' highest-and-best-use using the Direct Market Comparison Method at the balance sheet date.

FRS 16(77)(a-d)

SGX 1207(10)

- (c) If the land and buildings stated at valuation were included in the financial statements at cost less accumulated depreciation, their net book values would be:

FRS 16(77)(e)

| | Group | |
|----------------|--------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Freehold land | 8,010 | 8,108 |
| Leasehold land | 28,455 | 7,800 |
| Buildings | 51,609 | 21,529 |

- (d) Bank borrowings are secured on property, plant and equipment of the Group and the Company with carrying amounts of \$52,835,000 and \$537,000 respectively (2010: \$75,530,000 and \$390,000) (Note 31(a)).

FRS 16(74)(a)

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Property, plant and equipment ("PPE")

Disposals

1. Disposal of PPE due to the sale of subsidiary may be included in the "Disposals" line item, as illustrated in this publication.

Revaluations

2. When an item of PPE is revalued, the accumulated depreciation at the date of the revaluation can either be:
 - (a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount; or
 - (b) eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

FRS 16(35)

Method (b) is illustrated in this publication.

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

FRS 16(81)

Leased assets

4. Net carrying amount at the balance sheet date shall be disclosed for each class of assets acquired by finance lease.

FRS 17(31)(a)

Acquisition of subsidiary

5. Property, plant and equipment acquired as part of a business combination should be initially recorded at fair value from the perspective of the Group. From the viewpoint of the acquired entity, however, the property, plant and equipment continue to be recorded at cost less accumulated depreciation, including accumulated depreciation recorded prior to the date of the business combination. At Group level, consolidation adjustments may be necessary to adjust subsidiary book values to the Group numbers. For example, any pre-acquisition accumulated depreciation at the subsidiary level should not be carried forward to the consolidated Group numbers.

Notes to the Financial Statements

For the financial year ended 31 December 2011

29. Intangible assets

| <u>Composition:</u> | <u>Group</u> | | <u>Company</u> | |
|--|----------------|----------------|----------------|----------------|
| | 2011 \$'000 | 2010 \$'000 | 2011 \$'000 | 2010 \$'000 |
| Goodwill arising on consolidation (Note (a)) | 11,468 | 12,000 | – | – |
| Trademark and licences (Note (b)) | 12,648 | 7,000 | 1,000 | 1,000 |
| Computer software licences (Note (c)) | 814 | 600 | 200 | 100 |
| | <u>24,930</u> | <u>19,600</u> | <u>1,200</u> | <u>1,100</u> |

(a) Goodwill arising on consolidation

| | <u>Group</u> | | |
|-------------------------------------|----------------|----------------|--------------------|
| | 2011 \$'000 | 2010 \$'000 | |
| <i>Cost</i> | | | |
| Beginning of financial year | 12,000 | 12,150 | FRS 103(B67)(d) |
| Acquisition of subsidiary (Note 47) | 4,259 | – | FRS 38(118)(e)(i) |
| Disposal of subsidiary (Note 13) | (100) | – | FRS 38(118)(e)(ii) |
| Currency translation differences | (41) | (150) | FRS 103(B67)(d) |
| End of financial year | <u>16,118</u> | <u>12,000</u> | FRS 103(B67)(d) |
| <i>Accumulated impairment</i> | | | |
| Beginning of financial year | – | – | FRS 103(B67)(d) |
| Impairment charge (Note 5) | 4,650 | – | FRS 38(118)(e)(iv) |
| | <u>4,650</u> | <u>–</u> | FRS 103(B67)(d) |
| End of financial year | <u>11,468</u> | <u>12,000</u> | FRS 103(B67)(d) |

Notes to the Financial Statements

For the financial year ended 31 December 2011

29. Intangible assets (continued)

(a) Goodwill arising on consolidation (continued)

Impairment tests for goodwill

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

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

| | 2011 | | | 2010 | | |
|-------------|-----------------|------------|---------------|-----------------|--------------|---------------|
| | Component parts | Furniture | Total | Component parts | Furniture | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Singapore | 5,970 | 120 | 6,090 | 5,970 | 120 | 6,090 |
| China | 4,372 | 27 | 4,399 | 125 | 4,680 | 4,805 |
| Philippines | 270 | 90 | 360 | 300 | 100 | 400 |
| Other | 539 | 80 | 619 | 625 | 80 | 705 |
| | 11,151 | 317 | 11,468 | 7,020 | 4,980 | 12,000 |

FRS 36(134)(a)

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

FRS 36(134)(c)

FRS 36(134)(d)(iii)

Key assumptions used for value-in-use calculations:

FRS 36(134)(d)(i,iv,v)

| 2011 | Component parts | | | | Furniture | | | |
|----------------------------|-----------------|-------|-------------|-------|-----------|-------|-------------|-------|
| | Singapore | China | Philippines | Other | Singapore | China | Philippines | Other |
| Gross margin ¹ | 45.0% | 56.0% | 57.0% | 56.0% | 30.0% | 32.0% | 34.0% | 35.0% |
| Growth rate ² | 2.0% | 6.9% | 6.5% | 1.9% | 1.1% | 2.6% | 1.9% | 1.4% |
| Discount rate ³ | 7.1% | 14.5% | 12.0% | 13.2% | 7.0% | 15.0% | 13.3% | 13.5% |

¹ Budgeted gross margin

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

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

Notes to the Financial Statements

For the financial year ended 31 December 2011

29. Intangible assets (continued)

(a) Goodwill arising on consolidation (continued)

| 2010 | ← Component parts → | | | | ← Furniture → | | | |
|----------------------------|---------------------|-------|-------------|-------|---------------|-------|-------------|-------|
| | Singapore | China | Philippines | Other | Singapore | China | Philippines | Other |
| Gross margin ¹ | 60.0% | 59.0% | 60.0% | 56.0% | 29.3% | 33.1% | 32.5% | 35.0% |
| Growth rate ² | 5.8% | 8.8% | 7.8% | 1.9% | 1.3% | 8.3% | 1.9% | 1.4% |
| Discount rate ³ | 7.3% | 12.0% | 11.7% | 13.2% | 6.8% | 14.6% | 13.0% | 13.3% |

¹ Budgeted gross margin

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

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

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

FRS 36(134)(d)(ii)

FRS 36(55)

An impairment charge of \$4,650,000 (2010: Nil) is included within "Administrative expenses" in the statement of comprehensive income¹. The impairment charge has arisen from the furniture CGU in China following a decision to reduce the manufacturing output as a result of reducing customer demand³. The Group has also reassessed the useful lives of its property, plant and equipment and determined that no change in the useful lives was required.

FRS 36(126)(a)

FRS 36(130)

The impairment test carried out as at 31 December 2011 for the component parts CGU in Singapore, which includes 55% of the goodwill recognised on the balance sheet has revealed that the recoverable amount of the CGU is \$10,000,000 or 3% higher than its carrying amount. This is the result of the significant pressure felt on selling prices and a sharp decrease in demand encountered as a result of the economic crisis. A further decrease in the growth margin by 1% or a decrease in the growth rate by 0.2% would result in the recoverable amount of the component parts CGU in Singapore being equal to its carrying amount².

FRS 36(134)(f)

Notes to the Financial Statements

For the financial year ended 31 December 2011

29. Intangible assets (continued)

(b) Trademark and licences

| | <u>Group</u> | | <u>Company</u> | | |
|---|---------------|--------------|----------------|--------------|---------------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| <i>Cost</i> | | | | | |
| Beginning of financial year | 7,700 | 7,306 | 1,560 | 900 | FRS 38(118)(c) |
| Currency translation differences | (19) | (306) | – | – | FRS 38(118)(e)(vii) |
| Acquisition of subsidiary (Note 47) | 4,000 | – | – | – | FRS 38(118)(e)(i) |
| Additions | 2,447 | 700 | 100 | 660 | FRS 38(118)(e)(i) |
| Reclassified to disposal group (Note 11) | (100) | – | – | – | FRS 38(118)(e)(ii) |
| End of financial year | <u>14,028</u> | <u>7,700</u> | <u>1,660</u> | <u>1,560</u> | FRS 38(118)(c) |
| <i>Accumulated amortisation</i> | | | | | |
| Beginning of financial year | 700 | 335 | 560 | 500 | FRS 38(118)(c) |
| Amortisation charge | | | | | |
| - Continuing operations | 655 | 315 | 100 | 60 | FRS 38(118)(e)(vi) |
| - Discontinued operations | 25 | 50 | – | – | |
| End of financial year | <u>1,380</u> | <u>700</u> | <u>660</u> | <u>560</u> | FRS 38(118)(c) |
| Net book value | <u>12,648</u> | <u>7,000</u> | <u>1,000</u> | <u>1,000</u> | |

(c) Computer software licences

| | <u>Group</u> | | <u>Company</u> | | |
|----------------------------------|--------------|--------------|----------------|------------|---------------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| <i>Cost</i> | | | | | |
| Beginning of financial year | 1,300 | 1,345 | 120 | 120 | FRS 38(118)(c) |
| Currency translation differences | (32) | (45) | – | – | FRS 38(118)(e)(vii) |
| Additions | 366 | – | 120 | – | FRS 38(118)(e)(i) |
| End of financial year | <u>1,634</u> | <u>1,300</u> | <u>240</u> | <u>120</u> | FRS 38(118)(c) |
| <i>Accumulated amortisation</i> | | | | | |
| Beginning of financial year | 700 | 500 | 20 | – | FRS 38(118)(c) |
| Amortisation charge | 120 | 200 | 20 | 20 | FRS 38(118)(e)(vi) |
| End of financial year | <u>820</u> | <u>700</u> | <u>40</u> | <u>20</u> | FRS 38(118)(c) |
| Net book value | <u>814</u> | <u>600</u> | <u>200</u> | <u>100</u> | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

29. Intangible assets (continued)

- (d) Amortisation expense included in the statement of comprehensive income is analysed as follows¹:

FRS 38(118)(d)

| | 2011 | Group 2010 |
|-------------------------|--------|---------------|
| | \$'000 | \$'000 |
| Cost of sales | 655 | 315 |
| Administrative expenses | 120 | 200 |
| Total (Note 5) | 775 | 515 |

Guidance notes

Intangible assets

Line items on the statement of comprehensive income in which impairment and amortisation on losses are included

- These disclosures are required only for entities that present expenses by function on the face of the statement of comprehensive income.

FRS 38(118)(d)

Effects of reasonably possible changes on impairment key assumptions

- If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount, the following should be disclosed:

FRS 36(134)(f)

- the amount by which the unit's (group of units') recoverable amount exceeds its carrying amount;
- the value assigned to the key assumption;
- the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.

Impairment

- Entities are required to disclose the events and circumstances that led to the recognition of impairment losses.

FRS 36(130)(a)

Notes to the Financial Statements

For the financial year ended 31 December 2011

30. Trade and other payables

FRS 1(77)

| | <u>Group</u> | | <u>Company</u> | | |
|---|--------------|--------|----------------|--------|------------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| <i>Current</i> | | | | | |
| Trade payables to: | | | | | FRS 24(18(b),24) |
| - non-related parties | 958 | 528 | 86 | 140 | |
| - associated companies | 2,202 | 1,095 | 40 | 200 | FRS 24(19)(d) |
| - subsidiaries | – | – | 20 | 14 | FRS 24(19)(c) |
| - fellow subsidiaries | 9,690 | 7,021 | – | – | FRS 24(19)(g) |
| | 12,850 | 8,644 | 146 | 354 | |
| Construction contracts | | | | | |
| - Advances received (Note 19) | 541 | 262 | – | – | FRS 11(40)(b) |
| - Due to customers (Note 19) | 80 | 60 | – | – | FRS 11(42)(b) |
| | 621 | 322 | – | – | |
| Financial guarantees | – | – | 160 | – | |
| Accruals for operating expenses | 2,970 | 1,590 | 401 | 195 | |
| | 16,441 | 10,556 | 707 | 549 | |
| <i>Non-current</i> | | | | | |
| Contingent consideration payable (Note 47) | 350 | – | – | – | |
| Total trade and other payables | 16,791 | 10,556 | 707 | 549 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

31. Borrowings

| | <u>Group</u> | | <u>Company</u> | | |
|--|----------------|----------------|----------------|---------------|--------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| <i>Current</i> | | | | | |
| Bank overdrafts (Note 13) | 2,650 | 6,464 | 3,500 | 3,200 | |
| Bank borrowings ² | 6,754 | 9,131 | – | 7,000 | FRS 1(73) |
| Finance lease liabilities (Note 34) | 120 | 75 | – | – | |
| | <u>9,524</u> | <u>15,670</u> | <u>3,500</u> | <u>10,200</u> | FRS 1(60,69) |
| <i>Non-current</i> | | | | | |
| Bank borrowings ² | 39,228 | 58,839 | – | 31,751 | |
| Convertible bonds (Note 32) | 48,267 | – | 48,267 | – | FRS 1(73) |
| Redeemable preference shares (Note 33) | 30,000 | 30,000 | 30,000 | 30,000 | |
| Finance lease liabilities (Note 34) | 805 | 375 | – | – | |
| | <u>118,300</u> | <u>89,214</u> | <u>78,267</u> | <u>61,751</u> | |
| Total borrowings ¹ | <u>127,824</u> | <u>104,884</u> | <u>81,767</u> | <u>71,951</u> | FRS 1(60,69) |

The exposure of the borrowings of the Group and of the Company to interest rate changes and the contractual repricing dates at the balance sheet date are follows:

FRS 107(31)

| | <u>Group</u> | | <u>Company</u> | |
|------------------|----------------|----------------|----------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 6 months or less | 2,710 | 6,501 | 3,500 | 3,200 |
| 6 - 12 months | 6,814 | 9,169 | – | 7,000 |
| 1 - 5 years | 87,995 | 59,104 | 48,267 | 31,715 |
| Over 5 years | 30,305 | 30,110 | 30,000 | 30,000 |
| | <u>127,824</u> | <u>104,884</u> | <u>81,767</u> | <u>71,915</u> |

(a) Security granted

Total borrowings include secured liabilities of \$49,557,000 (2010: \$74,884,000) and \$3,500,000 (2010: \$41,951,000) for the Group and the Company respectively. Bank overdrafts of the Group and the Company are secured by debenture deeds which provide for first floating charges on inventories (Note 18) of the Company and certain subsidiaries. Bank borrowings of the Group and the Company are secured over certain bank deposits (Note 13), certain trade receivables (Note 17), certain inventories (Note 18), investment properties (Note 26) and certain land and buildings (Note 28(d)). Finance lease liabilities of the Group are effectively secured over the leased plant and equipment, and motor vehicles (Note 28(a)), as the legal title is retained by the lessor and will be transferred to the Group upon full settlement of the finance lease liabilities.

FRS 107(14)

FRS 2(36)(h)

FRS 16(74)(a)

Notes to the Financial Statements

For the financial year ended 31 December 2011

31. Borrowings (continued)

(b) Fair value of non-current borrowings

FRS 107(25)

FRS 107(29)(a)

| | <u>Group</u> | | <u>Company</u> | |
|------------------------------|--------------|--------|----------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Bank borrowings | 41,193 | 57,135 | – | 29,987 |
| Convertible bonds | 48,267 | – | 48,267 | – |
| Redeemable preference shares | 30,931 | 31,314 | 30,391 | 31,314 |
| Finance lease liabilities | 800 | 370 | – | – |

The fair values above are determined from the cash flow analyses, discounted at market borrowing rates of an equivalent instrument at the balance sheet date which the directors expect to be available to the Group as follows:

FRS 107(27)(a,b)

| | <u>Group</u> | | <u>Company</u> | |
|------------------------------|--------------|------|----------------|------|
| | 2011 | 2010 | 2011 | 2010 |
| Bank borrowings | 5.8% | 6.3% | – | 6.3% |
| Convertible bonds | 6.0% | – | 6.0% | – |
| Redeemable preference shares | 6.0% | 5.8% | 6.0% | 5.8% |
| Finance lease liabilities | 6.0% | 6.1% | – | – |

(c) Undrawn borrowing facilities

DV

FRS 7(50)(a)

| | <u>Group</u> | | <u>Company</u> | |
|--------------------------|---------------|---------------|----------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Expiring within one year | 24,900 | 16,600 | 9,010 | 9,060 |
| Expiring beyond one year | 14,000 | 8,400 | 6,000 | 5,220 |
| | 38,900 | 25,000 | 15,010 | 14,280 |

The facilities expiring within one year from the balance sheet date are facilities subject to annual review at various dates during 2012. The other facilities are arranged mainly to help finance the Group's proposed expansion in Asia.

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Default and breaches on borrowings

1. FRS 107 requires additional disclosures in the event of defaults and breaches on borrowings. Appendix 1 Example 5 includes an illustration.

FRS 1(74)
FRS 107(18)

Roll over and refinancing

2. Under an existing loan facility, if an entity has the discretion to refinance or roll over the borrowing for at least twelve months after the balance sheet date and expects to do so, it classifies the borrowings as non-current. However, when refinancing or rolling over the borrowing is not at the discretion of the entity (e.g. there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

FRS 1(73)

32. Convertible bonds

On 2 January 2011, the Company issued 5% convertible bonds denominated in Singapore Dollars with a nominal value of \$50,000,000. The bonds are due for repayment five years from the issue date at their nominal value of \$50,000,000 or conversion into shares of the Company at the holder's option at the rate of 33 shares per \$500 nominal value of the bonds.

FRS 107(17)

The fair value of the liability component, included in non-current borrowings, is calculated using a market interest rate for an equivalent non-convertible bond at the date of issue. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in other reserves (Note 38(b)(vi)), net of deferred income taxes.

FRS 32(28)

FRS 32(31)

DV (disclosed in
Note 2.13(c))

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

DV

| | Group and Company | |
|---|----------------------|----------------|
| | 2011 \$'000 | 2010 \$'000 |
| Face value of convertible bonds issued on 2 January 2011 | 50,000 | – |
| Equity conversion component on initial recognition (Note 38(b)(vi)) ¹ | (2,106) | – |
| Liability component on initial recognition | 47,894 | – |
| Accumulated amortisation of interest expense (Note 9) | 2,873 | – |
| Accumulated payments of interest | (2,500) | – |
| Liability component at end of financial year (Note 31) | 48,267 | – |

FRS 12 AppB(4)

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Convertible bonds

1. Certain tax authorities may compute the tax base of the liability component of such convertible bonds as the sum of the carrying amount of both the liability and equity components. When this occurs, the issuer shall recognise a deferred tax liability on the resulting temporary differences at the date of issuance of these instruments, with the corresponding entry charged directly to the carrying amount of the equity component (i.e. equity component reserve).

FRS 12(23)

Conversion at or before maturity

2. On conversion of a convertible instrument at maturity, the Company derecognises the liability component and recognises it as equity. The original equity component remains in equity. There is no gain or loss on conversion at maturity.
3. Where a convertible debt is converted before maturity in accordance with the terms of the convertible instrument, the amount recognised in equity in respect of the shares issued should be the carrying amount of the liability as at the date of conversion.

FRS 32 (AG32)

Early redemption or repurchase

4. When the Company extinguishes a convertible instrument before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the Company should allocate the redemption consideration paid (including any transaction costs) to the instrument's liability and equity components at the date of repurchase or redemption. Any resulting gain or loss is treated in accordance with accounting principles applicable to the related component, as follows:

FRS 32 (AG34)

- the difference between the consideration allocated to the liability component and its carrying value is recognised in profit or loss; and
- the amount of consideration relating to the equity component is recognised in equity.

Notes to the Financial Statements

For the financial year ended 31 December 2011

33. Redeemable preference shares

On 4 January 2008, the Company issued 30 million cumulative redeemable preference shares at \$1 per share to its immediate holding corporation. The shares are mandatorily redeemable at \$1 per share on 4 January 2018 or by the Company at any time before that date. The shares pay fixed dividends of 6.5% per annum. These are classified as borrowings (Note 31).

FRS 32(15)

FRS 32(18)(a)

FRS 107(31), AppB22

34. Finance lease liabilities

The Group leases certain plant and equipment, and motor vehicles from non-related parties under finance leases. The lease agreements do not have renewal clauses but provide the Group with options to purchase the leased assets at nominal values at the end of the lease term.

FRS 17(47)(f)

| | <u>Group</u> | |
|--|--------------|------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Minimum lease payments due | | |
| - Not later than one year | 164 | 84 |
| - Between one and five years | 615 | 319 |
| - Later than five years | 517 | 227 |
| | <u>1,296</u> | <u>630</u> |
| Less: Future finance charges | (371) | (180) |
| Present value of finance lease liabilities | <u>925</u> | <u>450</u> |

FRS 17(31)(b)

The present values of finance lease liabilities are analysed as follows:

FRS 17(31)(b)

| | <u>Group</u> | |
|-----------------------------------|--------------|------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Not later than one year (Note 31) | <u>120</u> | <u>75</u> |
| Later than one year (Note 31) | | |
| - Between one and five years | 500 | 265 |
| - Later than five years | 305 | 110 |
| | <u>805</u> | <u>375</u> |
| Total | <u>925</u> | <u>450</u> |

Notes to the Financial Statements

For the financial year ended 31 December 2011

35. Provisions

FRS 1(78)(d)

| | Group | | Company | |
|--------------------------|--------------|--------------|------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| <i>Current</i> | | | | |
| Warranty (Note (a)) | 1,026 | 2,300 | 100 | 210 |
| Restructuring (Note (b)) | 1,100 | – | – | – |
| | 2,126 | 2,300 | 100 | 210 |
| <i>Non-current</i> | | | | |
| Legal claims (Note (c)) | 1,655 | 1,585 | 200 | 95 |
| Total | 3,781 | 3,885 | 300 | 305 |

FRS 1(61,69)

FRS 1(61,69)

(a) Warranty

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

FRS 37(85)(a)

Movement in provision for warranty is as follows:

| | Group | | Company | |
|--|--------------|-------------------|------------|-------------------|
| | 2011 | 2010 ¹ | 2011 | 2010 ¹ |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Beginning of financial year | 2,300 | 2,120 | 210 | 90 |
| Currency translation differences | 10 | 15 | – | – |
| Provision made | 210 | 275 | 70 | 170 |
| Provision utilised | (1,398) | (110) | (180) | (50) |
| Reclassified to disposal group (Note 11) | (96) | – | – | – |
| End of financial year | 1,026 | 2,300 | 100 | 210 |

FRS 37(84)(a)

FRS 37(84)(b)

FRS 37(84)(c)

FRS 37(84)(a)

(b) Restructuring

The restructuring of the furniture segment will result in the retrenchment of 110 employees at two factories. An agreement was reached with the employees' union that specified the number of staff involved and quantified the amounts payable to those made redundant. Estimated staff redundancy costs amounting to \$840,000 are recognised in the financial year ended 31 December 2011. Other restructuring expenses amounting to \$260,000 mainly comprise penalties on the early termination of leases on vacated properties.

FRS 37(85)(a)

FRS 37(84)(b)

The provision for restructuring of \$1,100,000 is an update of the amount of \$800,000 recorded in the Group's interim consolidated financial report for the six months ended 30 June 2011, following the finalisation of certain restructuring costs in the second half of 2011. The provision for restructuring is expected to be fully utilised during the first half of 2012².

FRS 34(26)

In conjunction with the restructuring exercise, a goodwill impairment charge of \$4,650,000 is recognised (Note 29(a)).

FRS 36(130)(a)

Notes to the Financial Statements

For the financial year ended 31 December 2011

35. Provisions (continued)

(c) Legal claims

Other than as disclosed in Note 47, the provision for legal claims is in respect of certain legal claims brought against the Group by customers, and is expected to be utilised in 2013. In the opinion of the directors, after taking appropriate legal advice, the outcomes of these legal claims are not expected to give rise to any significant loss beyond the amounts provided at 31 December 2011. The directors consider that disclosure of further details of these claims will seriously prejudice the Group's negotiating position and accordingly, further information on the nature of the obligation has not been provided.

FRS 37(85)(a)

FRS 37(92)

Movement in provision for legal claims is as follows:

| | <u>Group</u> | | <u>Company</u> | | |
|-------------------------------------|--------------|-------------------|----------------|-------------------|---------------|
| | 2011 | 2010 ¹ | 2011 | 2010 ¹ | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Beginning of financial year | 1,585 | 1,342 | 95 | 90 | FRS 37(84)(a) |
| Currency translation difference | (100) | (22) | – | – | |
| Acquisition of subsidiary (Note 47) | 300 | – | – | – | |
| Provision made | 100 | 200 | 85 | 5 | FRS 37(84)(b) |
| Provision utilised | (300) | – | – | – | |
| Amortisation of discount (Note 9) | 70 | 65 | 20 | – | FRS 37(84)(e) |
| End of financial year | 1,655 | 1,585 | 200 | 95 | FRS 37(84)(a) |

Guidance notes

Provisions

1. Comparative information is encouraged, but not required for the movement of each class of provision.
2. If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year but a separate financial report is not published for that final interim period, the nature and amount of that change in estimate shall be disclosed in a note to the financial statements for that financial year. Further, such an update is relevant only for entities that prepare interim financial reports in accordance with FRS 34 requirements.

FRS 37(84)

FRS 34(26)

Notes to the Financial Statements

For the financial year ended 31 December 2011

36. Deferred income taxes

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

FRS 12(74)

| | <u>Group</u> | | <u>Company</u> | | |
|--|----------------|----------------|----------------|--------------|--------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Deferred income tax assets | | | | | |
| - To be recovered within one year | (647) | (82) | – | – | FRS 1(61,66) |
| - To be recovered after one year | (2,672) | (3,146) | – | – | FRS 1(61,66) |
| | <u>(3,319)</u> | <u>(3,228)</u> | <u>–</u> | <u>–</u> | |
| Deferred income tax liabilities | | | | | |
| - To be settled within one year | 1,627 | 890 | 600 | 559 | FRS 1(61,69) |
| - To be settled after one year | 10,019 | 7,516 | 2,179 | 1,492 | FRS 1(61,69) |
| | <u>11,646</u> | <u>8,406</u> | <u>2,779</u> | <u>2,051</u> | |

Movement in deferred income tax account is as follows:

DV

| | <u>Group</u> | | <u>Company</u> | | |
|-------------------------------------|--------------|--------------|----------------|--------------|--|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Beginning of financial year | 5,178 | 3,462 | 2,051 | 2,011 | |
| Currency translation differences | 614 | (1,184) | – | – | |
| Acquisition of subsidiary (Note 47) | 3,753 | – | – | – | |
| Disposal of subsidiary (Note 13) | (2,037) | – | – | – | |
| Tax charge/(credited) to | | | | | |
| - profit or loss (Note 10a) | 360 | 2,641 | 323 | 20 | |
| - equity (Note 10c, 10d) | 459 | 259 | 405 | 20 | |
| End of financial year | <u>8,327</u> | <u>5,178</u> | <u>2,779</u> | <u>2,051</u> | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

36. Deferred income taxes (continued)

Deferred income tax assets are recognised for tax losses and capital allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of \$5,000,000 (2010: \$5,244,000) and capital allowances of \$400,000 (2010: \$544,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by those companies with unrecognised tax losses and capital allowances in their respective countries of incorporation. The tax losses have no expiry date except for an amount of \$213,000 which will expire in 2012. The capital allowances will expire between 2013 and 2014.

FRS 12(82)

FRS 12(81)(e)

Deferred income tax liabilities of \$170,000 (2010: \$127,500) have not been recognised for the withholding and other taxes that will be payable on the earnings of an overseas subsidiary when remitted to the holding company. These unremitted earnings are permanently reinvested and amount to \$2,000,000 (2010: \$1,500,000) at the balance sheet date.

FRS 12(81)(f)

Notes to the Financial Statements

For the financial year ended 31 December 2011

36. Deferred income taxes (continued)

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

FRS 12(81)(g)(i)

FRS 12(81)(g)(ii)

Group

Deferred income tax liabilities

| | Accelerated tax depreciation \$'000 | Fair value gains-net \$'000 | Convertible bonds \$'000 | Other \$'000 | Total \$'000 |
|-------------------------------------|--|-----------------------------------|--------------------------------|-----------------|-----------------|
| 2011 | | | | | |
| Beginning of financial year | 7,381 | 521 | – | 1,083 | 8,985 |
| Currency translation differences | 378 | 78 | – | 469 | 925 |
| Acquisition of subsidiary | 553 | 3,175 | – | 275 | 4,003 |
| Disposal of subsidiary | (2,037) | – | – | – | (2,037) |
| Charged/(credited) to | | | | | |
| - profit or loss | 436 | 5 | (105) | 227 | 563 |
| - equity | – | 152 | 421 | – | 573 |
| End of financial year | 6,711 | 3,931 | 316 | 2,054 | 13,012 |
| 2010 | | | | | |
| Beginning of financial year | 6,413 | 333 | – | 284 | 7,030 |
| Currency translation differences | (818) | (77) | – | – | (895) |
| Charged to | | | | | |
| - profit or loss | 1,786 | 6 | – | 799 | 2,591 |
| - equity | – | 259 | – | – | 259 |
| End of financial year | 7,381 | 521 | – | 1,083 | 8,985 |

Deferred income tax assets

| | Provisions \$'000 | Tax losses \$'000 | Other \$'000 | Total \$'000 |
|--------------------------------------|----------------------|----------------------|-----------------|-----------------|
| 2011 | | | | |
| Beginning of financial year | (734) | (1,960) | (1,113) | (3,807) |
| Currency translation differences | (65) | (74) | (172) | (311) |
| Acquisition of subsidiary | (250) | – | – | (250) |
| (Credited)/charged to | | | | |
| - profit or loss | (579) | 891 | (515) | (203) |
| - equity | – | – | (114) | (114) |
| End of financial year | (1,628) | (1,143) | (1,914) | (4,685) |
| 2010 | | | | |
| Beginning of financial year | (977) | (1,500) | (1,091) | (3,568) |
| Currency translation differences | 62 | (460) | 109 | (289) |
| Charged/(credited) to profit or loss | 181 | – | (131) | 50 |
| End of financial year | (734) | (1,960) | (1,113) | (3,807) |

Notes to the Financial Statements

For the financial year ended 31 December 2011

36. Deferred income taxes (continued)

Company

Deferred income tax liabilities

| | Accelerated tax <u>depreciation</u> \$'000 | Fair value <u>gains-net</u> \$'000 | Convertible <u>bonds</u> \$'000 | <u>Total</u> \$'000 |
|-----------------------------|---|--|---------------------------------------|------------------------|
| 2011 | | | | |
| Beginning of financial year | 2,014 | 82 | – | 2,096 |
| Charged to | | | | |
| - profit or loss | 366 | – | 21 | 387 |
| - equity | – | 4 | 421 | 425 |
| End of financial year | <u>2,380</u> | <u>86</u> | <u>442</u> | <u>2,908</u> |
| 2010 | | | | |
| Beginning of financial year | 1,958 | 62 | – | 2,020 |
| Charged to | | | | |
| - profit or loss | 56 | – | – | 56 |
| - equity | – | 20 | – | 20 |
| End of financial year | <u>2,014</u> | <u>82</u> | <u>–</u> | <u>2,096</u> |

Deferred income tax assets

| | <u>Provisions</u> \$'000 | <u>Other</u> \$'000 | <u>Total</u> \$'000 |
|-----------------------------|-----------------------------|------------------------|------------------------|
| 2011 | | | |
| Beginning of financial year | (41) | (4) | (45) |
| Charged/(credited) to | | | |
| - profit or loss | 17 | (81) | (64) |
| - equity | – | (20) | (20) |
| End of financial year | <u>(24)</u> | <u>(105)</u> | <u>(129)</u> |
| 2010 | | | |
| Beginning of financial year | (15) | 6 | (9) |
| Credited to profit or loss | (26) | (10) | (36) |
| End of financial year | <u>(41)</u> | <u>(4)</u> | <u>(45)</u> |

Notes to the Financial Statements

For the financial year ended 31 December 2011

37. Share capital and treasury shares

FRS 1(79,106(d))

| Group and Company | No. of | | Amount | |
|-----------------------------|---------------------------------|----------------------------|----------------------------|------------------------------|
| | ← ordinary shares → | | ← Amount → | |
| | Issued share capital '000 | Treasury shares '000 | Share capital \$'000 | Treasury shares \$'000 |
| 2011 | | | | |
| Beginning of financial year | 20,000 | (725) | 32,024 | (900) |
| Treasury shares purchased | – | (1,000) | – | (2,072) |
| Shares issued | 4,050 | – | 9,884 | – |
| Share issue expenses | – | – | (413) | – |
| Treasury shares re-issued | – | 750 | – | 1,554 |
| End of financial year | <u>24,050</u> | <u>(975)</u> | <u>41,495</u> | <u>(1,418)</u> |
| 2010 | | | | |
| Beginning of financial year | 20,000 | – | 32,024 | – |
| Treasury shares purchased | – | (725) | – | (900) |
| End of financial year | <u>20,000</u> | <u>(725)</u> | <u>32,024</u> | <u>(900)</u> |

All issued ordinary shares are fully paid. There is no par value for these ordinary shares.

FRS 1(79)(a)(ii,iii)

Fully paid ordinary shares carry one vote per share and carry a right to dividends as and when declared by the Company, after paying dividends for the 6.5% redeemable preference shares, which are classified as liabilities (Note 33).

On 1 March 2011, the Company issued 4,050,000 ordinary shares for a total consideration of \$9,884,000 for cash to provide funds for the expansion of the Group's operations. The newly issued shares rank pari passu in all respects with the previously issued shares.

FRS 1(79)(a)(v)

Notes to the Financial Statements

For the financial year ended 31 December 2011

37. Share capital and treasury shares (continued)

(a) Treasury shares

The Company acquired 1,000,000 (2010: 725,000) of its shares in the open market during the financial year. The total amount paid to acquire the shares was \$2,072,000 (2010: \$900,000) and this was presented as a component within shareholders' equity.

FRS 32(33)

The Company re-issued 750,000 (2010: Nil) treasury shares during the financial year pursuant to the PwC Employee Share Option Scheme at the exercise price of \$1.31 (2010: Nil) each. The cost of treasury shares re-issued amounted to \$1,554,000. The total consideration (net of expense) for the treasury shares issued is as follows:

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Exercise price paid by employees | 983 | — |
| Value of employee services (Note 38(b)) | 946 | — |
| Less: Transaction costs | (1) | — |
| Total net consideration | <u>1,928</u> | — |

Accordingly, a gain on re-issue of treasury shares of \$374,000 is recognised in the capital reserve (Note 38(b)(ii)).

(b) Share options

Share options were granted to key management and employees with more than three years of service under the PwC Employee Share Option Scheme, which became operative on 1 January 2008.

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

FRS 102(45)(a)

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

On 1 January 2011, options to subscribe for 964,000 ordinary shares of the Company at an exercise price of \$2.95 per ordinary share were granted pursuant to the Scheme ("2011 Options"). The 2011 Options are exercisable from 1 January 2013 and expire on 31 December 2016.

FRS 1(79)(a)(vii)

Notes to the Financial Statements

For the financial year ended 31 December 2011

37. Share capital and treasury shares (continued)

(b) Share options (continued)

Movements in the number of unissued ordinary shares under option and their exercise prices are as follows:

FRS 102(45)(b-d)

| | | No. of ordinary shares under option | | | | | | |
|--------------------------|------------------|-------------------------------------|-------------------------------|---------------------------------|---------------------------------|-----------------------|----------------|-----------------|
| | | Beginning of financial year | Granted during financial year | Forfeited during financial year | Exercised during financial year | End of financial year | Exercise price | Exercise period |
| <u>Group and Company</u> | | | | | | | | |
| 2011 | | | | | | | | |
| 2008 | | | | | | | | 1.1.2010 – |
| Options | 1,850,000 | – | (100,000) | (750,000) | 1,000,000 | \$1.31 | 31.12.2013 | |
| 2010 | | | | | | | | 1.1.2012 – |
| Options | 1,732,000 | – | (200,000) | – | 1,532,000 | \$1.28 | 31.12.2015 | |
| 2011 | | | | | | | | 1.1.2013 – |
| Options | – | 964,000 | – | – | 964,000 | \$2.95 | 31.12.2016 | |
| | <u>3,582,000</u> | <u>964,000</u> | <u>(300,000)</u> | <u>(750,000)</u> | <u>3,496,000</u> | | | |
| 2010 | | | | | | | | |
| 2008 | | | | | | | | 1.1.2010 – |
| Options | 2,050,000 | – | (200,000) | – | 1,850,000 | \$1.31 | 31.12.2013 | |
| 2010 | | | | | | | | 1.1.2012 – |
| Options | – | 1,965,000 | (233,000) | – | 1,732,000 | \$1.28 | 31.12.2015 | |
| | <u>2,050,000</u> | <u>1,965,000</u> | <u>(433,000)</u> | <u>–</u> | <u>3,582,000</u> | | | |

Out of the unexercised options for 3,496,000 (2010: 3,582,000) shares, options for 1,000,000 (2010: 1,850,000) shares are exercisable at the balance sheet date. Options exercised in 2011 resulted in 750,000 treasury shares (2010: Nil) being re-issued at the exercise price of \$1.31 (2010: Nil) each. The weighted average share price at the time of exercise was \$3.20 (2010: Nil) per share. The related transaction costs amounting to \$500 (2010: Nil) were deducted against the proceeds received.

FRS 102(45)(b)(vii)

FRS 102(45)(c)

The fair value of options granted on 1 January 2011 (2010: 1 January 2010), determined using the Binomial Valuation Model, was \$600,000 (2010: \$780,000). The significant inputs into the model were the share price of \$2.95 (2010: \$1.28) at the grant date, the exercise price of \$2.95 (2010: \$1.28), standard deviation of expected share price returns of 30% (2010: 27%), the option life shown above and the annual risk-free interest rate of 5% (2010: 4%). The volatility measured as the standard deviation of expected share price returns was estimated based on statistical analysis of share prices over the last three years.

FRS 102(46,47(a))

Notes to the Financial Statements

For the financial year ended 31 December 2011

38. Other reserves

FRS 1(106)(d)

| | Group | | Company | |
|--|--------------|--------------|--------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| (a) <u>Composition:</u> | | | | |
| Share option reserve | 1,636 | 1,892 | 1,636 | 1,892 |
| Capital reserve | 488 | – | 394 | – |
| Fair value reserve | 572 | 127 | 96 | 130 |
| Hedging reserve | 87 | 24 | 62 | 12 |
| Currency translation reserve | 2,958 | 2,376 | – | – |
| Equity component of convertible bonds | 1,685 | – | 1,685 | – |
| Asset revaluation reserve | 2,202 | 2,000 | – | – |
| | <u>9,628</u> | <u>6,419</u> | <u>3,873</u> | <u>2,034</u> |
| (b) <u>Movements:</u> | | | | |
| (i) <u>Share option reserve</u> | | | | |
| Beginning of financial year | 1,892 | 1,270 | 1,892 | 1,270 |
| Employee share option scheme | | | | |
| - Value of employee services (Note 6) | 690 | 622 | 690 | 622 |
| - Share options exercised (Note 37(a)) | (946) | – | (946) | – |
| End of financial year | <u>1,636</u> | <u>1,892</u> | <u>1,636</u> | <u>1,892</u> |
| (ii) <u>Capital reserve</u> | | | | |
| Beginning of financial year | – | – | – | – |
| Gain on re-issue of treasury shares (Note 37(a)) | 374 | – | 374 | – |
| Tax on employee share option scheme ⁵ | 114 | – | 20 | – |
| End of financial year | <u>488</u> | <u>–</u> | <u>394</u> | <u>–</u> |
| (iii) <u>Fair value reserve</u> | | | | |
| Beginning of financial year | 127 | 55 | 130 | 55 |
| Available-for-sale financial assets | | | | |
| - Fair value gains/(losses) (Note 16) | 710 | 88 | (34) | 94 |
| - Tax on fair value changes | (128) | (16) | 6 | (19) |
| | <u>582</u> | <u>72</u> | <u>(28)</u> | <u>75</u> |
| Share of associated companies' fair value gains on available-for-sale financial assets, net of tax (Note 23) | 27 | – | – | – |
| Reclassification to profit or loss (Note 8) | (200) | – | (7) | – |
| Tax on reclassification | 36 | – | 1 | – |
| | <u>(164)</u> | <u>–</u> | <u>(6)</u> | <u>–</u> |
| End of financial year | <u>572</u> | <u>127</u> | <u>96</u> | <u>130</u> |

FRS 1(106)(d)

FRS 1(106)(d)

FRS 1(106)(d)

FRS 107(20)(a)(ii)

FRS 12(81)(a)

FRS 1(91)

FRS 107(20)(a)(ii)

FRS 12(81)(a)

FRS 1(91)

Notes to the Financial Statements

For the financial year ended 31 December 2011

38. Other reserves (continued)

(b) Movement (continued):

| | Group | | Company | | |
|--|---------|--------|---------|--------|----------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| (iv) Hedging reserve | | | | | FRS 1(106)(d) |
| Beginning of financial year | 24 | 8 | 12 | 6 | |
| Fair value gains | 417 | 414 | 71 | 16 | FRS 107(23)(c) |
| Tax on fair value gains | (75) | (83) | (13) | (3) | FRS 12(81)(a) |
| | 342 | 331 | 58 | 13 | |
| Reclassification to profit or loss | | | | | |
| - Revenue (Note 4) | (128) | (50) | – | – | FRS 107(23)(d) |
| - Finance expense (Note 9) | (102) | (304) | (10) | (9) | |
| Reclassification to inventories | (60) | (40) | – | – | FRS 107(23)(d) |
| Reclassification to property, plant and equipment | (50) | – | – | – | FRS 107(23)(e) |
| Tax on reclassification adjustments | 61 | 79 | 2 | 2 | FRS 107(23)(e) |
| | (279) | (315) | (8) | (7) | FRS 12(81)(a) |
| End of financial year | 87 | 24 | 62 | 12 | |
| (v) Currency translation reserve | | | | | FRS 1(106)(d) |
| Beginning of financial year | 2,376 | 2,454 | – | – | FRS 21(52)(b) |
| Reclassification on disposal of a subsidiary (Note 13) | (1,200) | – | – | – | |
| Net currency translation differences of financial statements of foreign subsidiaries, a joint venture and associated companies | 1,878 | (338) | – | – | |
| Net currency translation difference on borrowings designated as hedges against foreign subsidiaries ¹ | 456 | 220 | – | – | |
| Less: Non-controlling interests ² | (552) | 40 | – | – | |
| | 1,782 | (78) | – | – | |
| End of financial year | 2,958 | 2,376 | – | – | |
| (vi) Equity component of convertible bonds | | | | | FRS 1(106)(d) |
| Convertible bond - equity component (Note 32) | 2,106 | – | 2,106 | – | FRS 12(81)(a) |
| Tax on liability component | (421) | – | (421) | – | |
| End of financial year | 1,685 | – | 1,685 | – | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

38. Other reserves (continued)

(b) Movement (continued):

| | Group | | Company | | |
|--|--------|--------|---------|--------|---------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| (vii) Asset revaluation reserve³ | | | | | FRS 1(106)(d) |
| Beginning of financial year | 2,000 | 1,259 | – | – | |
| Revaluation gains (Note 28) | 253 | 1,133 | – | – | FRS 16(39) |
| Tax on revaluation gains | (46) | (239) | – | – | FRS 12(81)(a) |
| Less: Non-controlling interests ² | (5) | (153) | – | – | |
| | 202 | 741 | – | – | |
| End of financial year | 2,202 | 2,000 | – | – | FRS 16(77)(f) |

Other reserves are non-distributable⁴.

FRS 1(106)(d)

Guidance notes

Other reserves

Borrowings designated as net investment hedges

- For a monetary item that is receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, the item is in substance a part of the entity's net investment in that foreign operation. Currency translation differences arising from such items shall be recognised (a) in profit or loss in the separate financial statements of the reporting entity or of the foreign operation; and (b) in a separate component of equity in the consolidated financial statements.

FRS 21(15,32)

Non-controlling interests

- Non-controlling interests' share of reserve movement (net of tax) should be separately disclosed, where applicable.

Transfer of revaluation surplus on property, plant and equipment ("PPE")

- This publication illustrates the disclosure where the entity has elected to transfer revaluation surplus of an item of PPE directly to retained profits when that asset is derecognised. An entity can also choose to transfer the revaluation surplus to retained profits progressively as the asset is used by the entity; the amount to be transferred will then be the difference in depreciation based on the revalued amount and the depreciation based on the asset's original cost.

FRS 16(41)

Distributable reserves

- The amount of reserves that are distributable will depend on the Articles of Association of the Company subject to any regulatory restrictions.

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Other reserves (continued)

Tax on employee share option scheme

5. With effect from the Year of Assessment 2007, companies are allowed tax deduction for costs incurred in the purchase of treasury shares that are transferred to employees pursuant to employee share-based payment ("SBP") arrangements. For details, please refer to the Inland Revenue Authority of Singapore circular - "Use of treasury shares to fulfil obligations under an employee equity-based remuneration scheme" issued in June 2006 and a supplemental circular issued in January 2007.

As the timing of the tax deduction and the recognition of the employee share option expense differs, FRS 12 requires the recognition of the related deferred tax asset if the deferred tax asset recognition criteria are met. For an equity-settled SBP, if the cumulative amount of tax deduction exceeds the tax effect of the related cumulative remuneration expense at the reporting date, the excess of the associated deferred tax shall be recognised directly in equity. All taxes related to cash-settled SBPs shall be recognised in profit or loss.

FRS 12(61,68A-68C)

39. Retained profits

- (a) Retained profits of the Group are distributable except for accumulated retained profits of associated companies amounting to \$405,000 (2010: \$255,000) and the amount of \$1,418,000 (2010: \$900,000) utilised to purchase treasury shares. Retained profits of the Company are distributable except for the amount of \$1,418,000 (2010: \$900,000) utilised to purchase treasury shares.
- (b) Movement in retained profits for the Company is as follows:

FRS 1(79)(a)(v)

DV

| | Company | |
|-----------------------------|----------|----------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Beginning of financial year | 1,434 | 6,384 |
| Net profit | 9,944 | 10,786 |
| Dividends paid (Note 40) | (10,102) | (15,736) |
| End of financial year | 1,276 | 1,434 |

Notes to the Financial Statements

For the financial year ended 31 December 2011

40. Dividends¹

| | 2011 \$'000 | Group 2010 \$'000 | |
|--|----------------|-------------------------|--|
| <i>Ordinary dividends paid</i> | | | |
| Final dividend paid in respect of the previous financial year of 52.41 cents (2010: 78.68 cents) per share (Note 39) | 10,102 | 15,736 | FRS 1(107) |
| At the Annual General Meeting on 5 April 2012, a final dividend of 43.34 cents per share amounting to a total of \$10,000,000 will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained profits in the financial year ending 31 December 2012. | | | |
| | | | FRS 1(137) FRS 12(81)(i) FRS 10(12,13) |

Guidance notes

Dividends

1. It shall be noted that no dividend may be paid, and no other distribution (whether in cash or otherwise) of the company's assets may be made, to the company in respect of its treasury shares.

CA 76J(4)

41. Contingencies

(a) Contingent liabilities

Contingent liabilities, excluding those relating to business combinations (Note 47), investments in associated companies (Note 23) and the investment in a joint venture (Note 24), of which the probability of settlement is not remote at the balance sheet date, are as follows:

FRS 37(86)

Group

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

Company

The Company has issued corporate guarantees to banks for borrowings of certain subsidiaries with net liability positions. These bank borrowings amount to \$16,000,000 (2010: Nil) at the balance sheet date.

FRS 37(89)

(b) Contingent assets

In respect of the disposal of PwC Logistics Pte Ltd ("PwC Logistics") on 28 June 2011 (Note 13), the Group will receive additional consideration of \$70,000 if the net profit of PwC Logistics for the 18-month period ending 31 December 2012 exceeds \$200,000.

Notes to the Financial Statements

For the financial year ended 31 December 2011

42. Commitments

(a) Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognised in the financial statements, excluding those relating to investments in associated companies (Note 23) and investment in a joint venture (Note 24), are as follows:

| | <u>Group</u> | | <u>Company</u> | | |
|-------------------------------|---------------|--------|----------------|--------|----------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Property, plant and equipment | 4,193 | 4,117 | 800 | 600 | FRS 16(74)(c) |
| Intangible assets | 460 | 474 | 200 | 100 | FRS 38(122)(e) |
| | 4,653 | 4,591 | 1,000 | 700 | |

(b) Operating lease commitments - where the Group is a lessee

The Group leases land, factories and warehouses from non-related parties under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights¹.

FRS 17(35)(d)

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

| | <u>Group</u> | | |
|----------------------------|---------------|--------|--------------------|
| | 2011 | 2010 | |
| | \$'000 | \$'000 | |
| Not later than one year | 11,664 | 10,204 | FRS 17(35)(a)(i) |
| Between one and five years | 45,651 | 45,651 | FRS 17(35)(a)(ii) |
| Later than five years | 15,710 | 27,774 | FRS 17(35)(a)(iii) |
| | 73,025 | 83,629 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

42. Commitments (continued)

(c) Operating lease commitments - where the Group is a lessor

The Group and Company lease out retail space to non-related parties under non-cancellable operating leases. The lessees are required to pay either absolute fixed annual increase to the lease payments or contingent rents computed based on their sales achieved during the lease period.

FRS 17(56)(c)

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

| | Group and Company | |
|----------------------------|----------------------|-----------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Not later than one year | 348 | 52 |
| Between one and five years | 182 | — |
| Later than five years | — | — |
| | <u>530</u> | <u>52</u> |

FRS 17(56)(a)(i)

FRS 17(56)(a)(ii)

FRS 17(56)(a)(iii)

Guidance notes

Commitments

Significant leasing arrangements

- When a lessee has any significant leasing arrangements, the entity is required to disclose a general description of the arrangement, such as the basis of contingent rent, existence and terms of the renewal/purchase options and escalation clauses, and any restrictions imposed (i.e. restrictions on dividends, additional debt, further leasing).

FRS 17(35)(d)

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management¹

FRS 107(31)

Financial risk factors

The Group's activities expose it to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise any adverse effects from the unpredictability of financial markets on the Group's financial performance. The Group uses financial instruments such as currency forwards, interest rate swaps and foreign currency borrowings to hedge certain financial risk exposures.

FRS 107(33)(b)

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The Financial Risk Management Committee ("FRMC") then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement, exposure limits and hedging strategies, in accordance with the objectives and underlying principles approved by the Board of Directors.

Financial risk management is carried out by a central treasury department ("Group Treasury") in accordance with the policies set by the FRMC. The trading team of Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The reporting team of Group Treasury measures actual exposures against the limits set and prepares daily reports for review by the Heads of Group Treasury and each operating unit. Regular reports are also submitted to the FRMC and the Board of Directors.

(a) Market risk

(i) *Currency risk*

The Group operates in Asia with dominant operations in Singapore, China and the Philippines. Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies").

FRS 107(33)(a)

Currency risk arises within entities in the Group when transactions are denominated in foreign currencies such as the Singapore Dollar ("SGD"), United States Dollar ("USD") and Chinese Renminbi ("RMB"). To manage the currency risk, individual Group entities enter into currency forwards with Group Treasury. Group Treasury in turn manages the overall currency exposure mainly by entering into currency forwards with banks.

FRS 107(33)(b)

FRS 107(22)(c)

Group Treasury's risk management policy is to hedge between 60% and 80% of highly probable forecast transactions (mainly export sales and import purchases) in the next three months and approximately 90% of firm commitments denominated in foreign currencies.

FRS 107(33)(b)

In addition, the Group is exposed to currency translation risk on the net assets in foreign operations. Currency exposure to the net assets of the Group's foreign operations in China, the Philippines, Hong Kong and Thailand are managed primarily through borrowings denominated in the relevant foreign currencies. Borrowings designated and qualified as hedges of net investments in the Group's subsidiaries have a carrying amount of \$2,986,000 (2010: \$3,154,000) and a fair value of \$2,577,000 (2010: \$3,121,000) at the balance sheet date.

FRS 107(33)(a,b)

FRS 107(22)(c)

FRS 107(22)(b)

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Group's currency exposure based on the information provided to key management is as follows²:

FRS 107(31,34(a,c))

| | <u>SGD</u> \$'000 | <u>USD</u> \$'000 | <u>RMB</u> \$'000 | <u>Other</u> \$'000 | <u>Total</u> \$'000 |
|---|----------------------|----------------------|----------------------|------------------------|------------------------|
| <u>At 31 December 2011</u> | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents and financial assets at fair value through profit or loss and available-for-sale | 22,331 | 18,693 | 5,786 | 3,233 | 50,043 |
| Trade and other receivables | 7,717 | 4,716 | 6,100 | 4,099 | 22,632 |
| Receivables from subsidiaries ⁸ | 15,507 | 5,351 | 2,310 | 100 | 23,268 |
| Other financial assets | 2,122 | — | — | — | 2,122 |
| | 47,677 | 28,760 | 14,196 | 7,432 | 98,065 |
| Financial liabilities | | | | | |
| Borrowings | (80,182) | (30,982) | (11,250) | (5,410) | (127,824) |
| Payables to subsidiaries ⁸ | (15,507) | (5,351) | (2,310) | (100) | (23,268) |
| Other financial liabilities | (4,876) | (6,801) | (2,384) | (2,213) | (16,274) |
| | (100,565) | (43,134) | (15,944) | (7,723) | (167,366) |
| Net financial liabilities | (52,888) | (14,374) | (1,748) | (291) | (69,301) |
| Add: Net non-financial assets | 151,140 | 25,354 | 15,127 | 12,920 | 204,541 |
| Net assets | 98,252 | 10,980 | 13,379 | 12,629 | 135,240 |
| Add: Firm commitments and highly probable forecast transactions in foreign currencies ³ | 6,000 | 45,568 | 22,444 | (5,698) | 68,314 |
| Less: Currency forwards ³ | (4,000) | (32,040) | (12,540) | 1,395 | (47,185) |
| Currency profile including non-financial assets and liabilities³ | 100,252 | 24,508 | 23,283 | 8,326 | 156,369 |
| Currency exposure of financial (liabilities)/assets net of those denominated in the respective entities' functional currencies³ | — | (11,800) | (1,333) | — | (13,133) |

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Group's currency exposure based on the information provided to key management is as follows (continued):

| | <u>SGD</u> \$'000 | <u>USD</u> \$'000 | <u>RMB</u> \$'000 | <u>Other</u> \$'000 | <u>Total</u> \$'000 |
|---|----------------------|----------------------|----------------------|------------------------|------------------------|
| <u>At 31 December 2010</u> | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents and financial assets at fair value through profit or loss and available-for-sale | 20,762 | 26,419 | 7,003 | 3,291 | 57,475 |
| Trade and other receivables | 7,050 | 4,001 | 5,300 | 1,933 | 18,284 |
| Receivables from subsidiaries ⁸ | 12,521 | 7,505 | 3,200 | 100 | 23,326 |
| Other financial assets | 1,593 | — | — | — | 1,593 |
| | 41,926 | 37,925 | 15,503 | 5,324 | 100,678 |
| Financial liabilities | | | | | |
| Borrowings | (44,684) | (46,736) | (10,648) | (2,816) | (104,884) |
| Payables to subsidiaries ⁸ | (12,521) | (7,505) | (3,200) | (100) | (23,326) |
| Other financial liabilities | (5,216) | (2,878) | (1,540) | (600) | (10,234) |
| | (62,421) | (57,119) | (15,388) | (3,516) | (138,444) |
| Net financial (liabilities)/ assets | (20,495) | (19,194) | 115 | 1,808 | (37,766) |
| Add: Net non-financial assets | 92,519 | 25,064 | 17,125 | 934 | 135,642 |
| Net assets | 72,024 | 5,870 | 17,240 | 2,742 | 97,876 |
| Add: Firm commitments and highly probable forecast transactions in foreign currencies ³ | 2,000 | 14,893 | 6,000 | (3,876) | 19,017 |
| Less: Currency forwards ³ | (1,400) | (13,040) | (4,540) | 949 | (18,031) |
| Currency profile including non-financial assets and liabilities³ | 72,624 | 7,723 | 18,700 | (185) | 98,862 |
| Currency exposure of financial (liabilities)/assets net of those denominated in the respective entities' functional currencies³ | — | (15,750) | 100 | — | (15,650) |

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Company's currency exposure based on the information provided to key management is as follows²:

FRS 107(31,34(a,c))

| | ← 2011 → | | | ← 2010 → | | |
|--|-----------------|---------------|-----------------|-----------------|-----------------|-----------------|
| | <u>SGD</u> | <u>USD</u> | <u>Total</u> | <u>SGD</u> | <u>USD</u> | <u>Total</u> |
| | <u>\$'000</u> | <u>\$'000</u> | <u>\$'000</u> | <u>\$'000</u> | <u>\$'000</u> | <u>\$'000</u> |
| Financial Assets | | | | | | |
| Cash and cash equivalents, and available-for-sale financial assets | 16,320 | 1,432 | 17,752 | 1,488 | 2,707 | 4,195 |
| Trade and other receivables | 10,698 | – | 10,698 | 5,316 | – | 5,316 |
| | <u>27,018</u> | <u>1,432</u> | <u>28,450</u> | <u>6,804</u> | <u>2,707</u> | <u>9,511</u> |
| Financial Liabilities | | | | | | |
| Borrowings | (81,767) | – | (81,767) | (33,200) | (38,751) | (71,951) |
| Other financial liabilities | (655) | (52) | (707) | (470) | (79) | (549) |
| | <u>(82,422)</u> | <u>(52)</u> | <u>(82,474)</u> | <u>(33,670)</u> | <u>(38,830)</u> | <u>(72,500)</u> |
| Net financial (liabilities)/ assets | <u>(55,404)</u> | <u>1,380</u> | <u>(54,024)</u> | <u>(26,866)</u> | <u>(36,123)</u> | <u>(62,989)</u> |
| Add: Net non-financial assets | 98,000 | 981 | 98,981 | 57,502 | 40,042 | 97,544 |
| Net assets | <u>42,596</u> | <u>2,361</u> | <u>44,957</u> | <u>30,636</u> | <u>3,919</u> | <u>34,555</u> |
| Add: Firm commitments ³ | – | 3,171 | 3,171 | – | 1,600 | 1,600 |
| Less: Currency forwards ³ | – | (2,220) | (2,220) | – | (1,200) | (1,200) |
| Currency profile including non-financial assets and liabilities³ | <u>42,596</u> | <u>3,312</u> | <u>45,908</u> | <u>30,636</u> | <u>4,319</u> | <u>34,955</u> |
| Currency exposure of financial (liabilities)/ assets net of those denominated in the respective entities' functional currencies³ | <u>–</u> | <u>(840)</u> | <u>(840)</u> | <u>–</u> | <u>(37,323)</u> | <u>(37,323)</u> |

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

If the USD and RMB change⁴ against the SGD by 6%⁵ (2010: 2%) and 6%⁵ (2010: 4%⁶) respectively with all other variables including tax rate being held constant, the effects arising from the net financial liability/asset position will be as follows:⁷

FRS 107(40),
AppB23-24

| | Increase/(Decrease) | | | |
|-----------------|-------------------------------|--|-------------------------------|--|
| | 2011 | | 2010 | |
| | Profit after tax \$'000 | Other comprehensive income \$'000 | Profit after tax \$'000 | Other comprehensive income \$'000 |
| <u>Group</u> | | | | |
| USD against SGD | | | | |
| - Strengthened | (891) | 183 | (349) | 34 |
| - Weakened | 891 | (183) | 349 | (34) |
| RMB against SGD | | | | |
| - Strengthened | (80) | — | (4) | — |
| - Weakened | 80 | — | 4 | — |
| <u>Company</u> | | | | |
| USD against SGD | | | | |
| - Strengthened | (50) | — | (746) | — |
| - Weakened | 50 | — | 746 | — |

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Financial risk management - currency risk

Qualitative disclosures on currency risk

1. The publication illustrates some disclosures that may be required for financial risk management. The matters and level of detail to be disclosed depend on the circumstances and the extent of financial risks faced by the entity.

FRS 107(7)

Quantitative disclosures on currency risk - based on management information

2. A reporting entity shall disclose summary quantitative data about its exposure to currency risk at the reporting date. This disclosure shall be based on the information provided internally to key management personnel.

FRS 107(34)(a)

Quantitative disclosures on currency risk - factors considered

3. This publication illustrates the disclosure where management has monitored the entity's currency risk exposure, taking into consideration (a) financial assets/liabilities denominated in the respective entities' functional currencies; (b) firm commitments and highly probable forecast transactions in foreign currencies; (c) the effects of currency forwards used for hedges and held for trading; and (d) net non-financial assets of foreign subsidiaries. These are summed up in the line item *"Currency profile including non-financial assets and liabilities"*.

FRS 107 is not prescriptive in the presentation format of these quantitative disclosures. If management monitors the entity's currency risk exposure using other basis, these line items shall be replaced as appropriate.

The line item *"Currency exposure of financial assets/(liabilities) net of those denominated in the respective entities' functional currencies"* measures the currency exposure under the scope of FRS 107 and is used as a basis for computing the currency sensitivity analysis required by FRS 107. This may not coincide with the currency exposure monitored by management. Disclosure of this line item is not mandated by FRS 107.

Sensitivity analysis for currency risk

4. An entity shall provide sensitivity analysis for the whole of its business but may provide different types of sensitivity analysis for different classes of financial instruments. A sensitivity analysis shall be disclosed for each currency to which an entity has significant exposure. In this publication, the entity has significant exposure to two major currencies, namely USD and RMB.

FRS 107 AppB21

Sensitivity analysis - reasonably possible change

5. In determining what a reasonably possible change in the relevant risk variables is, an entity shall consider:
 - (a) the economic environments in which it operates. This shall not include remote or "worst case" scenarios or "stress test"; and
 - (b) the effects of changes reasonably possible over the period until the entity next presents these disclosures (usually the next annual reporting period).

FRS 107 AppB19

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Financial risk management - currency risk (continued)

Sensitivity analysis - prior year disclosures

6. In the event that the reasonably possible change in the risk variables changes, the prior year disclosures should not be restated. However, the entity can present as additional information the sensitivity information for the comparative financial year using the new percentage for the current financial year.

Sensitivity analysis - narrative text or tabular format

7. Instead of using a table format, the entity may disclose as follows:

FRS 107 IG36

“At 31 December 2011, if the USD has strengthened/weakened by []% (2010: []%) against the SGD with all other variables including tax rate being held constant, the Group’s and Company’s other comprehensive income will be \$[] (2009: \$[]) higher/lower and \$[] (2010: \$[]) higher/lower respectively as a result of currency translation gains/losses on securities classified as available-for-sale. The Group’s and Company’s profit after tax would have been \$[] (2010: \$[]) higher/lower and \$[] (2010: \$[]) higher/lower, as a result of currency translation gains/losses on the remaining USD-denominated financial instruments.....”

Where the impacts to profit after tax and/or other comprehensive income are different even though the exchange rates may have strengthened or weakened by the same percentage, the table format disclosure will likely be more useful. If the reporting entity holds option-based financial instruments, the upside and downside impacts may also be different.

Foreign currency inter-company receivables and payables

8. Foreign currency inter-company receivables and payables should be included in the sensitivity analyses. This is because even though the inter-company receivables and payables are eliminated in the consolidated balance sheet, the effect on profit or loss on their revaluation under FRS 21 is not fully eliminated.

However it must be noted that the foreign exchange revaluation effects of a foreign currency inter-company loan which is part of the net investment in a foreign operation are deferred in equity until disposal (or partial disposal) of the foreign operation. Such foreign currency revaluation effects should not be included in the sensitivity analysis for foreign currency risks as they represent a translation risk rather than a transaction risk.

Equity investments that are denominated in foreign currencies

9. Currency risk is not considered separately for financial instruments that are non-monetary e.g. equity investments. The foreign currency exposure arising from investing in non-monetary financial instruments would be considered and reflected in the other price risk disclosures as part of the fair value gains and losses.

FRS 107 App B23

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Financial risk management - currency risk (continued)

Disclosures at reporting date needs to be representative for the period

10. If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative. For example, if an entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose a graph that shows the exposure at various times during the period, or disclose the highest, lowest and average exposures.

FRS 107(35), IG20

Similarly, when the sensitivity analyses disclosed are unrepresentative of a risk inherent in a financial instrument (e.g. because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.

FRS 107(42), IG37-40

Changes in financial risk management/exposure from the previous period

11. An entity needs to include disclosures on the following if there are changes from the previous period:
- (a) the exposures to each type of risk arising from financial instruments;
 - (b) the entity's objectives, policies and processes for managing the risk and the methods used to measure the risk.

FRS 107(33)

For instance, if there has been a change in the hedging policy, this should be disclosed accordingly.

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(a) Market risk (continued)

(ii) Price risk

The Group is exposed to equity securities price risk arising from the investments held by the Group which are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. These securities are listed in Singapore and the United States. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

FRS 107(33)(a,b)

If prices for equity securities listed in Singapore and the United States had changed by 15% (2010: 6%) and 14% (2010: 6%) respectively with all other variables including tax rate being held constant, the effects on profit after tax and other comprehensive income would have been:

FRS 107(40), AppB25-28

| | ← 2011 | | Increase/(Decrease) | → 2010 | |
|-----------------------------|-------------------------------|--|---------------------|-------------------------------|--|
| | Profit after tax \$'000 | Other comprehensive income \$'000 | | Profit after tax \$'000 | Other comprehensive income \$'000 |
| <u>Group</u> | | | | | |
| Listed in Singapore | | | | | |
| - increased by | (720) | 1,584 | | 198 | 434 |
| - decreased by | 720 | (1,584) | | (198) | (434) |
| Listed in the United States | | | | | |
| - increased by | (526) | 408 | | 180 | 88 |
| - decreased by | 712 | (222) | | (220) | (68) |
| <u>Company</u> | | | | | |
| Listed in Singapore | | | | | |
| - increased by | — | 186 | | — | 60 |
| - decreased by | — | (186) | | — | (60) |

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risks

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

FRS 107 AppA

The Group's policy is to maintain 80 - 90% of its borrowings in fixed rate instruments. The Group's exposure to cash flow interest rate risks arises mainly from non-current variable-rate borrowings. The Company's exposure to cash flow interest rate risks arises mainly from non-current borrowings and loans to subsidiaries at variable rates. The Group manages these cash flow interest rate risks using floating-to-fixed interest rate swaps.

FRS 107(33)(a,b)

The Group's and the Company's borrowings at variable rates on which effective hedges have not been entered into are denominated mainly in SGD. If the SGD interest rates had increased/decreased by 0.50% (2010: 0.50%) with all other variables including tax rate being held constant, the profit after tax would have been lower/higher by \$44,000 (2010: \$77,000) and \$18,000 (2010: \$51,000) as a result of higher/lower interest expense on these borrowings. Other comprehensive income would have been higher/lower by \$313,000 (2010: \$835,000) mainly as a result of higher fair value of interest rate swaps designated as cash flow hedges of variable rate borrowings.

FRS 107(40),IG36

Guidance notes

Financial risk management - price risk and interest rate risk

Sensitivity analysis for equity price risk - unquoted equity investments

1. Sensitivity analysis for equity price risk is applicable even if the equity investments are not quoted.

Other guidance

2. Please refer to guidance notes in "Financial risk management - currency risk" where applicable.

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(b) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are bank deposits and trade receivables. For trade receivables, the Group adopts the policy of dealing only with customers of appropriate credit history, and obtaining sufficient collateral or buying credit insurance where appropriate to mitigate credit risk. For other financial assets, the Group adopts the policy of dealing only with high credit quality counterparties.

FRS 107(33)(a,b)

Credit exposure to an individual counterparty is restricted by credit limits that are approved by the Head of Credit Control based on ongoing credit evaluation. The counterparty's payment profile and credit exposure are continuously monitored at the entity level by the respective management and at the Group level by the Head of Credit Control.

As the Group and the Company do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet, except as follows:

FRS 107(36)(a,b)

| | <u>Company</u> | |
|---|----------------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Corporate guarantees provided to banks on subsidiaries' loans | 16,000 | – |

The trade receivables of the Group and of the Company comprise 5 debtors (2010: 5 debtors) and 3 debtors (2010: 3 debtors) respectively that individually represented 5 - 10% of trade receivables.

FRS 107(34)(c)

The credit risk for trade receivables based on the information provided to key management is as follows:

FRS 107(34)(a)

| | <u>Group</u> | | <u>Company</u> | |
|--|---------------|---------------|----------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| <u>By geographical areas²</u> | | | | |
| Singapore | 7,770 | 7,217 | 3,680 | 1,569 |
| China | 4,800 | 3,800 | 2,432 | 512 |
| Philippines | 2,224 | 1,000 | – | – |
| Other countries | 2,125 | 2,509 | 1,400 | – |
| | 16,919 | 14,526 | 7,512 | 2,081 |
| <u>By types of customers²</u> | | | | |
| Related parties | 188 | 217 | 1,200 | 600 |
| Non-related parties | | | | |
| - Multi-national companies | 9,800 | 7,767 | 3,038 | 295 |
| - Other companies | 5,707 | 5,142 | 2,378 | 926 |
| - Individuals | 1,224 | 1,400 | 896 | 260 |
| | 16,919 | 14,526 | 7,512 | 2,081 |

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(b) Credit risk (continued)

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

FRS 107(36)(c)

(ii) Financial assets that are past due and/or impaired

There is no other class¹ of financial assets that is past due and/or impaired except for trade receivables.

DV

The age analysis of trade receivables past due but not impaired is as follows:

FRS 107(36)(a,b)

| | <u>Group</u> | | <u>Company</u> | |
|------------------------|--------------|--------------|----------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Past due < 3 months | 3,320 | 1,772 | 1,350 | 704 |
| Past due 3 to 6 months | 1,446 | 654 | 500 | 205 |
| Past due over 6 months | 270 | 154 | 150 | 66 |
| | <u>5,036</u> | <u>2,580</u> | <u>2,000</u> | <u>975</u> |

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows³:

FRS 107(37)(b)

FRS 107(16)

| | <u>Group</u> | | <u>Company</u> | |
|---------------------------------|--------------|------------|----------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Past due 3 to 6 months | 320 | 200 | 80 | 40 |
| Past due over 6 months | 480 | 400 | 120 | 40 |
| | <u>800</u> | <u>600</u> | <u>200</u> | <u>80</u> |
| Less: Allowance for impairment | (509) | (470) | (100) | (50) |
| | <u>291</u> | <u>130</u> | <u>100</u> | <u>30</u> |
| Beginning of financial year | 470 | 438 | 50 | 40 |
| Currency translation difference | (2) | 1 | — | — |
| Allowance made | 74 | 61 | 58 | 17 |
| Allowance utilised | (33) | (30) | (8) | (7) |
| End of financial year | <u>509</u> | <u>470</u> | <u>100</u> | <u>50</u> |

The impaired trade receivables arise mainly from sales to a wholesaler which has suffered significant losses in its operations. Certain goods sold to this wholesaler amounting to \$108,000 can be re-possessed⁴.

FRS 107(37)(b)

FRS 107(36)(b)

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Financial risk management - credit risk

Class versus category of financial instrument

1. An entity is required to make certain credit risk exposures by class of financial instrument. A “class” of financial instruments is not the same as a “category” of financial instruments. Categories are defined in FRS 39 as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, financial liabilities at fair value through profit or loss and financial liabilities measured at amortised cost.

FRS 107(36)

Classes are expected to be determined at a lower level than the categories in FRS 39 and reconciled to the balance sheet as required by FRS 107(6). However, the level of detail for each class shall be determined on an entity-specific basis. Items are treated as one class when they share similar characteristics.

Quantitative disclosures on credit risk

2. The quantitative disclosures on credit risk exposure shall be based on information provided internally to key management personnel of the entity. This publication illustrates the disclosure where (a) management monitors the credit risk exposures only on the major classes of financial assets, which are bank deposits and trade receivables; and (b) the credit risk exposures on trade receivables are analysed and reported to key management by geographical areas and by types of customers. Other measures such as industry sector, credit rating and group of closely related counterparties might be used by another reporting entity.

FRS 107(34)

Allowance account for credit losses

3. When financial assets are impaired by credit losses and the entity records the impairment in a separate allowance account rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

FRS 107(16)

Collateral and other credit enhancements obtained

4. An entity shall disclose by class of financial instrument a description of collateral held as security and of other credit enhancements, and their financial effect (e.g. a quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit.

FRS 107(36)(b)

When an entity obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements, and such assets meet the recognition criteria in other Standards, the following disclosure for such assets held at the reporting date can be considered:

FRS 107(38)

“As at xxx, the Group obtained assets by taking possession of collateral held as security as follows:

| <i>Nature of assets</i> | <i>Carrying amount (\$'000)</i> |
|--------------------------------------|---------------------------------|
| <i>Inventories</i> | <i>20</i> |
| <i>Property, plant and equipment</i> | <i>1,290</i> |

Repossessed items are sold as soon as practicable, with the proceeds used to reduce outstanding receivables. They are presented within “other current assets” on the balance sheet.”

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities (Note 31(c)) and the ability to close out market positions at a short notice. At the balance sheet date, assets held by the Group and Company for managing liquidity risk included cash and short-term deposits as disclosed in Note 13.

FRS 107 (33,39(c))
FRS 107 AppB11E

Management monitors rolling forecasts of the Group's and Company's liquidity reserve (comprises undrawn borrowing facility (Note 31) and cash and cash equivalents (Note 13)) on the basis of expected cash flow. This is generally carried out at local level in the operating companies of the Group in accordance with the practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring liquidity ratios and maintaining debt financing plans.

FRS 107 (34)(a)

The table below analyses non-derivative financial liabilities of the Group and the Company into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows¹. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

| | Less than 1 year ⁴ \$'000 | Between 1 and 2 years ⁴ \$'000 | Between 2 and 5 years ⁴ \$'000 | Over 5 years ⁴ \$'000 |
|-------------------------------|--|--|--|--|
| Group | | | | |
| At 31 December 2011 | | | | |
| Trade and other payables | (15,820) | (350) | — | — |
| Borrowings | (14,545) | (25,931) | (83,981) | (34,223) |
| At 31 December 2010 | | | | |
| Trade and other payables | (10,234) | — | — | — |
| Borrowings | (18,560) | (23,276) | (47,174) | (35,967) |
| Company | | | | |
| At 31 December 2011 | | | | |
| Trade and other payables | (707) | — | — | — |
| Borrowings | (8,160) | (4,450) | (63,350) | (33,900) |
| Financial guarantee contracts | (16,000) | — | — | — |
| At 31 December 2010 | | | | |
| Trade and other payables | (549) | — | — | — |
| Borrowings | (12,762) | (35,606) | (5,850) | (35,850) |

FRS 107 AppB11C(c)

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(c) Liquidity risk (continued)

The Group intends to repay \$15,000,000 in the first quarter of 2012 for borrowings that are contractually repayable between two to five years (2010: Nil).³

FRS 107
AppB10A(a)

The table below analyses the derivative financial instruments of the Group and the Company for which contractual maturities are essential for an understanding of the timing of the cash flows into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

FRS 107 (39)(b)

| | Less than 1 year ⁴ \$'000 | Between 1 and 2 years ⁴ \$'000 | Between 2 and 5 years ⁴ \$'000 | Over 5 years ⁴ \$'000 |
|------------------------------------|--|--|--|--|
| Group | | | | |
| At 31 December 2011 | | | | |
| Net-settled interest rate swaps | | | | |
| - Cash flow hedges ² | | | | |
| - Net cash outflows | (30) | (30) | (47) | — |
| Gross-settled currency forwards | | | | |
| - Receipts | 18,108 | 5,01 | — | — |
| - Payments | (18,482) | (5,121) | — | — |
| At 31 December 2010 | | | | |
| Gross-settled currency forwards | | | | |
| - Receipts | 8,023 | 4,912 | — | — |
| - Payments | (8,278) | (4,960) | — | (33,900) |

FRS 107(39)(b)

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(c) Liquidity risk (continued)

| <u>Company</u> | Less than <u>1 year</u> ⁴ \$'000 | Between 1 and 2 <u>years</u> ⁴ \$'000 | Between 2 and 5 <u>years</u> ⁴ \$'000 | Over <u>5 years</u> ⁴ \$'000 |
|--|---|---|---|---|
| At 31 December 2011 | | | | |
| Gross-settled currency forwards – Cash flow hedges and fair value hedges | | | | |
| – Receipts | 1,123 | 99 | – | – |
| – Payments | (1,170) | (110) | – | – |
| At 31 December 2010 | | | | |
| Gross-settled currency forwards – Cash flow hedges and fair value hedges | | | | |
| – Receipts | 640 | 50 | – | – |
| – Payments | (687) | (52) | – | – |

The table below analyses the Group's trading portfolio derivative financial liabilities for which contractual maturities are not essential into relevant maturity groupings based on the remaining period from the balance sheet date to the expected settlement date. The amounts disclosed in the table are net fair values, as the amounts at which an orderly settlement of the transactions would take place between market participants at the balance sheet date.

FRS 107(39)(b)

| <u>Group</u> | Less than <u>1 year</u> ⁴ \$'000 | Between 1 and 2 <u>years</u> ⁴ \$'000 | Between 2 and 5 <u>years</u> ⁴ \$'000 | Over <u>5 years</u> ⁴ \$'000 |
|-------------------------------|---|---|---|---|
| At 31 December 2011 | | | | |
| Net settled currency forwards | | | | |
| - held for trading | (10) | – | – | – |

FRS 107(39)(b)

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Financial risk management - liquidity risk

Contractual undiscounted cash flows

1. Irrespective of whether they are reported to key management, a maturity analysis should be disclosed for:

FRS 107(39)(a,b)

- (a) the non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities; and
- (b) derivative financial liabilities that includes the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.

For derivative financial liabilities, it is judgemental as to whether the remaining contractual maturities would be essential for an understanding of the timing of the cash flows. FRS 107 specifies that contractual maturities would be essential in the following situations:

FRS 107 AppB11B

- (a) an interest rate swap with a remaining maturity of five years in a cash flow hedge of a variable rate financial asset or liability; and
- (b) all loan commitments.

The amounts disclosed in the maturity analysis are contractual undiscounted cash flows of financial liabilities only, e.g.:

FRS 107 AppB11D

- (a) gross finance lease obligations (before deducting finance charges);
- (b) prices specified in forward agreements to purchase financial assets for cash;
- (c) net amounts for pay-floating/receive-fixed (or vice versa) interest rate swaps for which net cash flows are exchanged;
- (d) contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged; and
- (e) gross loan commitments.

Contractual cash flows are undiscounted and may therefore differ from the carrying amount on the balance sheet. This difference is not expected to be material for balances due within 12 months.

Variable amount payable

2. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. For example, when the amount payable varies with changes in an index, the amount disclosed may be based on the level of the index at the reporting date.

FRS 107 AppB11D

Expected maturity dates

3. An entity should disclose summary quantitative data about its exposure to liquidity risk on the basis of the information provided internally to key management personnel. If the outflows of cash (or another financial asset) included in that data could occur significantly earlier than indicated in the data, the entity should state this fact and provide quantitative information that enables this risk to be assessed.

FRS 107 AppB10A

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Financial risk management - liquidity risk (continued)

Time buckets

4. In preparing the maturity analysis, an entity uses its judgement to determine an appropriate number of time buckets. FRS 107 prescribes that:
 - (a) When a counterparty has a choice of when an amount is to be paid, the liability is included on the basis of the earliest date on which the reporting entity can be required to pay.
 - (b) When an entity is committed to make amounts available in instalments, each instalment is allocated to the earliest period in which the entity can be required to pay.
 - (c) For issued financial guarantee contracts the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

FRS 107 AppB11

FRS 107 AppB11C

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(b) Capital risk

FRS 1(135),IG10

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may adjust the amount of dividend payment, return capital to shareholders, issue new shares, buy back issued shares, obtain new borrowings or sell assets to reduce borrowings.

FRS 1(135)(a)

Management monitors capital based on a gearing ratio^{1,2}. The Group and the Company are also required by the banks to maintain a gearing ratio of not exceeding 70% (2010: 70%). The Group's and Company's strategies, which were unchanged from 2010, are to maintain gearing ratios within 45% to 50% and 60% to 70% respectively.

FRS 1(135)(a)

FRS 1(135)(c)

The gearing ratio is calculated as net debt divided by total capital. Net debt is calculated as borrowings plus trade and other payables less cash and cash equivalents. Total capital is calculated as total equity plus net debt.

FRS 1(135)(d)

| | <u>Group</u> | | <u>Company</u> | |
|----------------------------|--------------|------------|----------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Net debt | 122,605 | 79,228 | 66,222 | 69,523 |
| Total equity | 136,148 | 98,250 | 45,226 | 34,592 |
| Total capital ³ | 258,753 | 177,478 | 111,448 | 104,115 |
| Gearing ratio | 47% | 45% | 59% | 67% |

The Group and the Company are in compliance with all externally imposed capital requirements for the financial years ended 31 December 2010 and 2011.

Guidance notes

Financial risk management - Capital risk

1. This publication illustrates the capital risk disclosure for a reporting entity that monitors its capital using a gearing ratio. Other entities may use different and/or more complex methods to monitor capital. An entity decides, in the light of its circumstances, which measures are more suitable to monitor its capital and how much detail it should disclose. For instance, some entities may monitor capital based on Return on Capital Employed, Economic Value Added, or dividend payout ratio.
2. An entity may be subject to a number of different capital requirements. For example, a conglomerate may include entities that undertake insurance activities and banking activities and those entities may also operate in several jurisdictions. When an aggregate disclosure will not provide useful information, the entity shall disclose separate information for each capital requirement to which the entity is subject.
3. The word "capital" denotes the Company's overall funding; it does not mean "equity capital".

FRS 1 IG10

FRS 1(136)

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(e) Fair value measurements

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- (b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3)¹.

| Group | Level 1 | Level 2 | Level 3 | Total | FRS 107 (27B)(a) |
|---|---------------|--------------|--------------|---------------|------------------|
| 2011 | \$'000 | \$'000 | \$'000 | \$'000 | |
| <i>Assets</i> | | | | | |
| Financial assets at fair value through profit or loss | 10,785 | — | — | 10,785 | |
| Derivative financial instruments | — | 1,353 | 111 | 1,464 | |
| Available-for-sale financial assets | 11,901 | — | 5,347 | 17,248 | |
| Total assets | 22,686 | 1,353 | 5,458 | 29,497 | |
| <i>Liabilities</i> | | | | | |
| Contingent consideration payable | — | — | 350 | 350 | |
| Derivative financial instruments | — | 575 | — | 575 | |
| Total liabilities | — | 575 | 350 | 925 | |
| 2010 | | | | | |
| <i>Assets</i> | | | | | |
| Financial assets at fair value through profit or loss | 8,326 | — | — | 8,326 | |
| Derivative financial instruments | — | 564 | — | 564 | |
| Available-for-sale financial assets | 7,673 | — | 5,264 | 12,937 | |
| Total assets | 15,999 | 564 | 5,264 | 21,827 | |
| <i>Liabilities</i> | | | | | |
| Derivative financial instruments | — | 284 | — | 284 | |

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(e) Fair value measurements (continued)

| <u>Company</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-------------------------------------|----------------|----------------|----------------|---------------|
| 2011 | \$'000 | \$'000 | \$'000 | \$'000 |
| <i>Assets</i> | | | | |
| Derivatives financial instruments | – | 266 | – | 266 |
| Available-for-sale financial assets | 1,500 | – | – | 1,500 |
| Total assets | 1,500 | 266 | – | 1,766 |
| <i>Liabilities</i> | | | | |
| Derivative financial instruments | – | 47 | – | 47 |
| 2010 | | | | |
| <i>Assets</i> | | | | |
| Derivative financial instruments | – | 84 | – | 84 |
| Available-for-sale financial assets | 1,218 | – | – | 1,218 |
| Total assets | 1,218 | 84 | – | 1,302 |
| <i>Liabilities</i> | | | | |
| Derivative financial instruments | – | 47 | – | 47 |

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

FRS 107 (27)

The fair value of financial instruments that are not traded in an active market (e.g. over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward currency rates at the balance sheet date. These investments are classified as Level 2 and comprise debt investments and derivative financial instruments. In infrequent circumstances, where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are classified as Level 3.

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

(e) Fair value measurements (continued)

The following table presents the changes in Level 3 instruments:

FRS 107 (27B)(c)

| | Derivatives \$'000 | Available-for- sale financial assets \$'000 | Contingent consideration \$'000 | Total \$'000 |
|--|-----------------------|--|---------------------------------------|-----------------|
| 2011 | | | | |
| Beginning of financial year | — | 5,264 | — | 5,264 |
| Transfers | 115 | — | — | 115 |
| Purchases | — | 50 | — | 50 |
| Acquisition of a subsidiary | — | — | (300) | (300) |
| Fair value gains/(losses) recognised in | | | | |
| - other comprehensive income | — | 33 | — | 33 |
| - profit or loss | (4) | — | (50) | (54) |
| End of financial year | 111 | 5,347 | (350) | 5,108 |

Total gains or (losses) for the
period included in profit or
loss for assets and liabilities
held at the end of the
reporting period

| | | | |
|-----|---|------|------|
| (4) | — | (50) | (54) |
|-----|---|------|------|

2010

| | | | | |
|--|---|-------|---|-------|
| Beginning of financial year | — | 5,000 | — | 5,000 |
| Purchases | — | 254 | — | 254 |
| Fair value gains/(losses) recognised in | | | | |
| - other comprehensive income | — | 10 | — | 10 |
| - profit or loss | — | — | — | — |
| End of financial year | — | 5,264 | — | 5,264 |

Total gains/(losses) recognised
in profit or loss for assets and
liabilities held at the end of
financial year

| | | | |
|---|---|---|---|
| — | — | — | — |
|---|---|---|---|

During the financial year ended 31 December 2011, the Group transferred a held-for-trading forward foreign exchange contract from Level 2 to Level 3 as the counterparty for the derivative encountered significant financial difficulties which resulted to a significant increase in the discount rate due to increased counterparty credit risk which is not based on observable inputs.

FRS 107(27B)(c)(iv)

The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated based on quoted market prices or dealer quotes for similar instruments by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The fair value of current borrowings approximates their carrying amount.

FRS 107(29)(a)

FRS 107(27)(a)

Notes to the Financial Statements

For the financial year ended 31 December 2011

43. Financial risk management (continued)

Guidance notes

Financial risk management - Fair value measurements

Sensitivity analysis

- For fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, that fact shall be stated and the effect of these changes disclosed. Significance shall be judged with respect to profit or loss, total assets or liabilities or total equity. Such disclosure has been illustrated in this publication in Note 3.1(e).

FRS 107(27B)(e)

(f) Financial Instruments by category

FRS 107 (6)

The carrying amount of the different categories of financial instruments is as disclosed on the face of the balance sheet and in Note 14, Note 15, Note 16 and Note 27 to the financial statements, except for the following:

| | <u>Group</u> | | <u>Company</u> | |
|---|----------------|----------------|----------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial assets at fair value through profit or loss | | | | |
| - Held for trading | 10,257 | 8,436 | — | — |
| Loans and receivables | 43,058 | 53,308 | 26,950 | 8,293 |
| Financial liabilities at amortised cost | <u>144,185</u> | <u>115,380</u> | <u>82,314</u> | <u>72,500</u> |

44. Immediate and ultimate holding corporations¹

The Company's immediate holding corporation is PwC Corporate Limited, incorporated in Singapore. The ultimate holding corporation is PwC Global Limited, incorporated in the United Kingdom.

FRS 1(138)(c)

FRS 24(13)

CA 201(10)

Guidance notes

Immediate and ultimate holding corporation

Ultimate controlling party

- An entity shall disclose the name of the entity's parent and if different, the name of the ultimate controlling party, which can be an individual person or an entity that is not an incorporated entity.

FRS 24(13)

Notes to the Financial Statements

For the financial year ended 31 December 2011

45. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Sales and purchases of goods and services

FRS 24(18,24)

| | <u>Group</u> | | |
|---|---------------|---------------|---------------|
| | 2011 | 2010 | |
| | \$'000 | \$'000 | |
| Sales of goods and/or services to | | | |
| - associated companies | 1,800 | 1,792 | FRS 24(19)(d) |
| - other related parties | 470 | 729 | FRS 24(19)(g) |
| | <u>2,270</u> | <u>2,521</u> | |
| Purchases of materials from | | | |
| - associated companies | 16,286 | 17,504 | FRS 24(19)(d) |
| - fellow subsidiaries | 70,601 | 60,504 | FRS 24(19)(g) |
| | <u>86,887</u> | <u>78,008</u> | |
| Purchase of plant and equipment from other related parties | <u>600</u> | <u>—</u> | FRS 24(19)(g) |
| Payments made on behalf and reimbursed by the immediate holding corporation | <u>186</u> | <u>153</u> | FRS 24(19)(a) |
| Professional fees received from other related parties | <u>212</u> | <u>149</u> | FRS 24(19)(g) |
| Technical fees received from other related parties | <u>15</u> | <u>10</u> | FRS 24(19)(g) |

Other related parties comprise mainly companies which are controlled or significantly influenced by the Group's key management personnel and their close family members.

FRS 24(9)

Outstanding balances at 31 December 2011, arising from sale/purchase of goods and services, are unsecured and receivable/payable within 12 months from balance sheet date and are disclosed in Notes 17 and 30 respectively.

FRS 24(17)(b)(i)

Notes to the Financial Statements

For the financial year ended 31 December 2011

45. Related party transactions (continued)

(b) Key management personnel compensation

FRS 24(17)

Key management personnel compensation is as follows:

| | Group | | |
|--|----------------|----------------|---------------|
| | 2011 \$'000 | 2010 \$'000 | |
| Wages and salaries | 3,620 | 2,066 | FRS 24(17)(a) |
| Employer's contribution to defined contribution plans, including Central Provident Fund | 203 | 98 | FRS 24(17)(b) |
| Termination benefits | 100 | — | FRS 24(17)(d) |
| Other long-term benefits | 33 | 23 | FRS 24(17)(c) |
| Share option expense | 300 | 280 | FRS 24(17)(e) |
| | 4,256 | 2,467 | |

Details on directors' remuneration are disclosed in the Corporate Governance Report.

DV

46. Segment information¹

Management has determined the operating segments based on the reports reviewed by the Executive Committee ("Exco") that are used to make strategic decisions. The Exco comprises the Chief Executive Officer, the Chief Financial Officer, and the department heads of each business within each geographic segment.

FRS108(22)(a)

The Exco considers the business from both a geographic and business segment perspective. Geographically, management manages and monitors the business in the three primary geographic areas Singapore, China and the Philippines. All geographic locations are engaged in the manufacture and sale of electronic parts. In addition, China and the Philippines also derive revenues from the sale of household and office furniture, while the Singapore segment derives revenue from construction of specialised equipment.

FRS108(22)(b)

Other services included within Singapore, China, the Philippines and Vietnam include investment holding and provision of logistic services; but these are not included within the reportable operating segments, as they are not included in the reports provided to the Exco. The results of these operations are included in the "all other segments" column.

FRS108(16)

In the prior year, the Group carried out glass manufacturing operations in Malaysia. However, this was discontinued in the current period (see Note 11).

Notes to the Financial Statements

For the financial year ended 31 December 2011

46. Segment information (continued)

The segment information provided to the Exco for the reportable segments are as follows:

| | ← Singapore → | | ← China → | | ← Philippines → | | | | |
|--|-----------------------------------|-----------------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|---------------------------------|---|------------------------|
| | Compo- nent parts \$'000 | Construct- ion \$'000 | Compo- nent Parts \$'000 | Furniture \$'000 | Compo- nent Parts \$'000 | Furniture \$'000 | All other segments \$'000 | Total for continuing operations \$'000 | |
| 2011 | | | | | | | | | |
| Sales | | | | | | | | | |
| Total segment sales | 87,928 | 29,808 | 59,682 | 39,355 | 2,845 | 25,737 | 8,659 | 254,014 | FRS108(23)(b) |
| Inter-segment sales | (19,950) | — | (13,415) | (5,880) | (635) | (3,920) | — | (43,800) | |
| Sales to external parties | 67,978 | 29,808 | 46,267 | 33,475 | 2,210 | 21,817 | 8,659 | 210,214 | FRS108(23), (33)(a) |
| Adjusted | | | | | | | | | |
| EBITDA¹ | 25,858 | 11,341 | 17,000 | 12,729 | 840 | 8,316 | 806 | 76,890 | FRS108(23) |
| Depreciation | 6,248 | 2,255 | 4,221 | 2,789 | 202 | 1,859 | 101 | 17,675 | FRS108(23)(e) |
| Amortisation | 384 | — | 258 | — | 13 | — | 120 | 775 | FRS108(23)(e) |
| Goodwill impairment | — | — | — | 4,650 | — | — | — | 4,650 | FRS36(129)(a) |
| Restructuring costs | — | — | — | 1,100 | — | — | — | 1,100 | FRS108(23)(i) |
| Share of loss of associated companies | — | — | — | — | — | — | (174) | (174) | FRS108(23)(g) |
| Segment assets² | 51,103 | 35,581 | 83,023 | 39,919 | 5,637 | 26,086 | 10,782 | 252,131 | FRS108(23) |
| Segment assets includes: | | | | | | | | | |
| Investment in associated companies | — | — | — | — | — | — | 8,208 | 8,208 | FRS108(24)(a) |
| Additions to: | | | | | | | | | |
| - property, plant and equipment | 1,999 | 1,250 | 70,314 | 1,427 | 810 | 1,005 | 1,094 | 77,899 | FRS108(24)(b) |
| - investment property | 288 | — | — | — | — | — | — | 288 | FRS108(24)(b) |
| - intangible assets | 1,121 | — | 8,259 | — | 1,219 | — | 473 | 11,072 | FRS108(24)(b) |
| Segment liabilities² | (7,471) | (2,532) | (6,101) | (2,047) | (288) | (1,365) | (768) | (20,572) | FRS108(23) |

Notes to the Financial Statements

For the financial year ended 31 December 2011

46. Segment information (continued)

| | ← Singapore → | | ← China → | | ← Philippines → | | | | |
|--|-----------------------------------|-----------------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|---------------------------------|---|--------------------|
| | Compo- nent parts \$'000 | Construct -ion \$'000 | Compo- nent Parts \$'000 | Furniture \$'000 | Compo- nent Parts \$'000 | Furniture \$'000 | All other segments \$'000 | Total for continuing operations \$'000 | |
| 2010 | | | | | | | | | |
| Sales | | | | | | | | | |
| Total segment sales | 77,194 | 16,527 | 25,601 | 15,621 | 2,274 | 6,214 | 4,429 | 147,860 | FRS108(23)(b) |
| Inter-segment sales | (21,356) | — | (7,049) | (5,075) | (637) | (1,383) | — | (35,500) | |
| Sales to external parties | 55,838 | 16,527 | 18,552 | 10,546 | 1,637 | 4,831 | 4,429 | 112,360 | FRS108(23),(33)(a) |
| Adjusted | | | | | | | | | |
| EBITDA¹ | 13,230 | 6,341 | 9,574 | 7,729 | 760 | 6,715 | 406 | 44,755 | FRS108(23) |
| Depreciation | 3,064 | 1,389 | 1,162 | 1,398 | 1,057 | 932 | 580 | 9,582 | FRS108(23)(e) |
| Amortisation | 235 | — | 89 | 42 | 81 | 28 | 40 | 515 | FRS108(23)(e) |
| Share of loss of associated companies | — | — | — | — | — | — | (145) | (145) | FRS108(23)(g) |
| Segment assets² | 40,493 | 28,213 | 26,964 | 59,596 | 2,785 | 29,397 | 10,494 | 197,942 | FRS108(23) |
| Segment assets includes: | | | | | | | | | |
| Investment in associated companies | — | — | — | — | — | — | 8,569 | 8,569 | FRS108(24)(a) |
| Additions to: | | | | | | | | | |
| - property, plant and equipment | 2,324 | 530 | 882 | 420 | 801 | 280 | 274 | 5,511 | FRS108(24)(b) |
| - intangible assets | 399 | — | 151 | — | 138 | — | 2,040 | 2,728 | FRS108(24)(b) |
| Segment liabilities² | (5,247) | (802) | (1,781) | (3,300) | (211) | (2,200) | (900) | (14,441) | FRS108(23) |

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Exco is measured in a manner consistent with that in the statement of comprehensive income.

FRS108(27)(a)

The Exco assesses the performance of the operating segments based on a measure of Earnings before interest, tax, depreciation and amortisation ("adjusted EBITDA")¹. This measurement basis excludes the effects of expenditure from the operating segments such as restructuring costs and goodwill impairment that are not expected to recur regularly in every period. Interest income and finance expenses are not allocated to segments, as this type of activity is driven by the Group Treasury, which manages the cash position of the group. Since the Exco reviews adjusted EBITDA, the results of discontinued operations are not included in the measure of adjusted EBITDA.

FRS108(27)(b), (28)

Notes to the Financial Statements

For the financial year ended 31 December 2011

46. Segment information (continued)

Guidance notes

Segment information

EBITDA

1. The measure of profit that is reported here depends on what the Chief Operating Decision Maker reviews. EBITDA should not be used if that is not the measure of profit that the CODM reviews.

Reporting segment assets and liabilities

2. The Annual Improvements 2009, effective for annual periods beginning on or after 1 January 2010, requires an entity to report a measure of total assets and liabilities for each reportable segment only if such amounts are regularly provided to the Chief Operating Decision Maker. This publication discloses the measure of total assets and liabilities for each reportable segment as this is regularly provided to the chief operating decision maker of PwC Holdings Ltd.

FRS 108(23)

(a) Reconciliations

(i) Segment profits

FRS 108(28)(b)

A reconciliation of adjusted EBITDA to profit before tax and discontinued operations is as follows:

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Adjusted EBITDA for reportable segments | 76,684 | 44,069 |
| Other segments EBITDA | 206 | 686 |
| Depreciation | (17,652) | (9,582) |
| Amortisation | (775) | (515) |
| Restructuring costs | (1,100) | – |
| Goodwill impairment | (4,650) | – |
| Finance expense | (7,073) | (9,060) |
| Interest income | 1,180 | 620 |
| Profit before tax and discontinued operations | 46,797 | 26,218 |

(ii) Segment assets

The amounts provided to the Exco with respect to total assets are measured in a manner consistent with that of the financial statements. For the purposes of monitoring segment performance and allocating resources between segments, the Exco monitors the property, plant and equipment, intangible assets, inventories, receivables, operating cash and investment properties attributable to each segment. All assets are allocated to reportable segments other than deferred income tax assets, short-term bank deposits, derivative financial instruments, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets.

FRS108(27)(c)

Notes to the Financial Statements

For the financial year ended 31 December 2011

46. Segment information (continued)

(a) Reconciliations (continued)

(ii) Segment assets (continued)

Segment assets are reconciled to total assets as follows:

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Segment assets for reportable segments | 241,349 | 187,448 |
| Other segment assets | 10,782 | 10,494 |
| Unallocated: | | |
| Assets associated with disposal group | 3,333 | – |
| Deferred income tax assets | 3,319 | 3,228 |
| Short-term bank deposits | 9,530 | 5,414 |
| Derivative financial instruments | 1,464 | 564 |
| Financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets | 30,155 | 22,856 |
| | 299,932 | 230,004 |

(iii) Segment liabilities

The amounts provided to the Exco with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. All liabilities are allocated to the reportable segments other than income tax liabilities, borrowings and derivative financial instruments.

FRS108(27)(d)

Segment liabilities are reconciled to total liabilities as follows:

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Segment liabilities for reportable segments | 19,804 | 13,541 |
| Other segment liabilities | 768 | 900 |
| Unallocated: | | |
| Liabilities associated with disposal group | 220 | – |
| Income tax liabilities | 2,942 | 3,833 |
| Deferred tax liabilities | 11,646 | 8,406 |
| Borrowings | 127,824 | 104,884 |
| Derivative financial instruments | 575 | 284 |
| | 163,779 | 26,218 |

Notes to the Financial Statements

For the financial year ended 31 December 2011

46. Segment information (continued)

(b) Revenue from major products and services

Revenues from external customers are derived mainly from the sale of electronic parts, sale of household and office furniture and construction of specialized equipment. Investment holding and provision of logistic services are included in "Others". Breakdown of the revenue is as follows:

FRS108(32)

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| <u>Sales for continuing operations</u> | | |
| Component parts | 116,455 | 76,027 |
| Furniture | 55,292 | 15,377 |
| Construction | 29,808 | 16,527 |
| Others | 8,659 | 4,429 |
| | <u>210,214</u> | <u>112,360</u> |

(c) Geographical information

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

FRS108(33)

- Singapore - the Company is headquartered and has operations in Singapore. The operations in this area are principally the manufacture and sale of electronic component parts, construction of specialised equipment, and investment holding;
- China - the operations in this area are principally the sale of furniture, manufacture and sale of electronic component parts and provision of logistics services;
- Philippines - the operations in this area are principally the manufacture and sale of electronic component parts and sale of furniture; and
- Other countries - the operations include the manufacture and sale of electronic component parts in Thailand, sale of furniture in Vietnam and investment holding.

| | <u>Sales for continuing operations</u> | |
|-----------------|--|----------------|
| | 2011 \$'000 | 2010 \$'000 |
| Singapore | 103,420 | 73,894 |
| China | 84,749 | 31,298 |
| Philippines | 19,020 | 6,468 |
| Other countries | 3,025 | 700 |
| | <u>210,214</u> | <u>112,360</u> |

FRS 108(33)(a)

Notes to the Financial Statements

For the financial year ended 31 December 2011

46. Segment information (continued)

(c) Geographical information (continued)

| | Non-Current Assets | | FRS 108(33)(b) |
|-----------------|--------------------|----------------|----------------|
| | 2011 | 2010 | |
| | \$'000 | \$'000 | |
| Singapore | 79,284 | 77,143 | |
| China | 88,736 | 35,603 | |
| Philippines | 24,163 | 18,340 | |
| Other countries | 316 | 428 | |
| | 192,499 | 131,514 | |

Revenues of approximately \$23,460,000 (2010: \$20,478,000) are derived from a single external customer. These revenues are attributable to the Singapore manufacture and sale of component parts segment.

FRS108(34)

47. Business combinations

On 1 October 2011, the Group acquired a 70% equity interest in XYZ Electronics Pte Ltd (now known as PwC Components (China) Pte Ltd ("PwC China")). The principal activity of PwC China is that of manufacturing and trading of electronic components parts in China. As a result of the acquisition, the Group is expected to increase its presence in China. It also expects to reduce costs through economies of scale.

FRS 103 AppB64(a-d)

Details of the consideration paid, the assets acquired and liabilities assumed, the non-controlling interest recognised and the effects on the cash flows of the Group, at the acquisition date, are as follows:

| | | |
|---|---------------|---|
| (a) Purchase consideration ^{1,2} | \$'000 | |
| Cash paid | 13,700 | FRS 103 AppB64(f)(i) |
| Contingent consideration (Note (e) below) | 300 | FRS 103 AppB64(f)(iii); FRS 103 AppB64(g)(i) |
| Total purchase consideration | 14,000 | FRS 103 AppB64(f) |
| Less: Indemnification asset ³ (Note (i) below) | (200) | FRS 103 AppB64(g)(i) |
| Consideration transferred for the business | 13,800 | |
| (b) Effect on cash flows of the Group | | |
| Cash paid (as above) | 13,700 | FRS 7(40)(b) |
| Less: cash and cash equivalents in subsidiary acquired | (300) | FRS 7(40)(c) |
| Cash outflow on acquisition | 13,400 | FRS 7(40)(a) |

Notes to the Financial Statements

For the financial year ended 31 December 2011

47. Business combinations (continued)

| | At fair value \$'000 | Reference |
|--|-------------------------|---|
| (c) Identifiable assets acquired and liabilities assumed | | FRS 103 AppB64(i) |
| Cash and cash equivalents | 300 | FRS 7(40)(d) |
| Property, plant and equipment (Note 28) | 67,784 | |
| Trademarks and licences (included in intangibles) (Note 29(b)) | 4,000 | |
| Investment in associated companies (Note 23) | 389 | |
| Available-for-sale financial assets (Note 16) | 473 | |
| Inventories | 1,122 | |
| Trade and other receivables (Note (f) below) | 1,585 | |
| Total assets | 75,653 | |
| Trade and other payables | (15,000) | |
| Borrowings | (41,359) | |
| Contingent liability (included in provisions) (Note 35 and (h) below) | (300) | |
| Current tax liabilities (Note 10(b)) | (100) | |
| Deferred tax liabilities (Note 36) | (3,753) | |
| Total liabilities | (60,512) | |
| Total identifiable net assets | 15,141 | |
| Less: Non-controlling interest at fair value | (5,600) | FRS 103 AppB64(o)(i) |
| Add: Goodwill (Note 29(a)) | 4,259 | |
| Consideration transferred for the business | 13,800 | |
| (d) Acquisition-related costs | | FRS 103 AppB64(m) |
| Acquisition-related costs of \$550,000 are included in administrative expenses in the consolidated statement of comprehensive income and in operating cash flows in the consolidated statement of cash flows. | | |
| (e) Contingent consideration | | FRS 103 AppB64(f)(iii) FRS 103 AppB64(g) |
| The Group is required to pay the former owners of PwC China \$1,000,000 in cash if PwC China achieves a cumulative net profit of \$6,000,000 or more for the period from 1 October 2011 to 30 September 2013. | | |
| The fair value of the contingent consideration as at the acquisition date was estimated to amount to \$300,000 based on an income approach. This fair value was based on an estimated cumulative net profit of PwC China ranging from \$5,000,000 to \$6,250,000 for the relevant period, discounted at 8% per annum. | | |
| As at 31 December 2011, the fair value of the contingent consideration is estimated to have increased by \$50,000, as the estimated cumulative net profit in pwc china for the relevant period has been revised to be in the region of \$5,300,000 to \$6,400,000. the increase in the fair value of the contingent consideration has been recognised in administrative expenses in the statement of comprehensive income. | | |

FRS 103 AppB67(b)

Notes to the Financial Statements

For the financial year ended 31 December 2011

47. Business combinations (continued)

(f) Acquired receivables

FRS 103 AppB64(h)

The fair value of trade and other receivables is \$1,585,000 and includes trade receivables with a fair value of \$1,510,000. The gross contractual amount for trade receivables due is \$1,680,000, of which \$170,000 is expected to be uncollectible.

(g) Provisional fair values⁴

FRS 103 AppB67(a)

The fair value of the acquired identifiable intangible assets of \$4,000,000 (trademarks and licences) has been provisionally determined pending receipt of the final valuation reports from the independent valuers.

(h) Contingent liability

FRS 103 AppB64(j),
FRS 103 AppB67(c)
FRS 37(84, 85)

A contingent liability of \$300,000 has been recognised for a pending lawsuit in which the entity is a defendant. The claim has arisen from a customer alleging defective products. It is expected that a decision on this case will be reached by the relevant court of law by the end of 2013. The potential undiscounted amount of all future payments that the Group could be required to make is estimated to be between \$200,000 and \$500,000, if an adverse decision is made. As at 31 December 2011, there has been no change in the amount recognised for the liability since the acquisition date, as there has been no change in the range of outcomes or assumptions used to develop the estimates.

(i) Indemnification asset³

FRS 103(27,57)
FRS 103 AppB64(g)

The seller of PwC China has contractually agreed to indemnify the Group for the claim that may become payable in respect of the lawsuit disclosed in (e) above, up to a maximum amount of \$200,000. As is the case with the indemnified liability there has been no change in the amount recognised for the indemnification asset since the acquisition date.

(j) Non-controlling interests

FRS 103 AppB64(o)

The Group has chosen to recognise the 30% non-controlling interest at its fair value of \$5,600,000. The fair value was estimated by applying a market approach and an income approach. The fair value estimates are based on:

- an assumed discount rate of 8% per annum;
- an assumed terminal value based on a range of terminal EBITDA multiples between three and five times;
- long-term sustainable growth rate of 2.2%;
- assumed financial multiples of companies deemed to be similar to PwC China; and
- assumed adjustments because of the lack of control or lack of marketability that market participants would consider

Notes to the Financial Statements

For the financial year ended 31 December 2011

47. Business combinations (continued)

(k) Goodwill

FRS 103 AppB64(e)

The goodwill of \$4,259,000 arising from the acquisition is attributable to the distribution network in China and the synergies expected to arise from the economies of scale in combining the operations of the Group with those of PwC China.

(l) Revenue and profit contribution

FRS 103 AppB64(q)

The acquired business contributed revenue of \$4,500,000 and net profit of \$675,000 to the Group from the period from 1 October 2011 to 31 December 2011.

Had PwC China been consolidated from 1 January 2011, consolidated revenue and consolidated profit for the year ended 31 December 2011 would have been \$230,214,000 and \$35,276,000 respectively.

Guidance notes

Equity interests issued as purchase consideration

1. When equity interests are issued or issuable as part of the cost of acquisition, the entity shall disclose the number of instruments or interests issued and the method of determining their fair value.

FRS 103 AppB64(f)(iv)

Business combination achieved in stages

2. Where the business combination was achieved in stages, the fair value of the previously held interest immediately before the acquisition date shall form part of the total purchase consideration. That acquisition-date fair value shall be disclosed together with the amount of any gain or loss recognised as a result of remeasuring to fair value the previously held interest, and the line item in the statement of comprehensive income where that gain or loss is included.

FRS 103 AppB64(p)

Indemnification assets

3. When the seller agrees to contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to a specific asset or liability, the acquirer recognises an indemnification asset with an equivalent amount deducted from the consideration transferred for the business combination. The amount recognised, a description of the arrangement and an estimate of the range of outcomes shall be disclosed.

FRS 103(27)

FRS 103 AppB64(g)

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Provisional fair values and subsequent adjustments during the measurement period

4. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

FRS 103(45)

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. The acquirer shall disclose information that enables users of financial statements to evaluate the financial effects of adjustments recognised.

48. Events occurring after balance sheet date

On 25 February 2012, the Group issued \$4,300,000 6.5% Singapore Dollar bonds to finance the purchase of an additional 40% interest in PwC A Property (Hong Kong) Limited ("PwC Hong Kong") and new equipment in the construction segment. The bonds are repayable on 25 February 2016.

FRS 10(21)

On 1 March 2012, the Group acquired an additional 40% interest in PwC Hong Kong, a company incorporated in Hong Kong which is engaged in investment holding, for a cash consideration of \$3,500,000. The fair value of the Group's share of the identifiable net assets of PwC Hong Kong at the date of acquisition has been provisionally determined at \$2,500,000. Acquisition-related costs of \$120,000 have been incurred and will be included in administrative expenses in the Statement of Comprehensive Income for the year ended 31 December 2012. Details of the assets acquired and liabilities assumed, non-controlling interest that will be recognised, revenue and profit contribution of PwC Hong Kong and the effect on the cash flows for the Group are not disclosed, as the accounting for this acquisition is still incomplete at the time these financial statements have been authorised for issue. PwC Hong Kong will be consolidated with effect from 1 March 2012¹.

FRS 10(21)

FRS 10(22)(a)

FRS 103 AppB66

Guidance notes

Business combinations occurring after balance sheet date but before the financial statements are authorised for issue

1. FRS 103 (revised) requires an acquirer to disclose the same information for business combinations occurring after balance sheet date but before the financial statements are authorised for issue as what is disclosed for business combinations occurring during the reporting period. The only exception is if the accounting for such business combination is incomplete at the time the financial statements are authorized for issue, in which case the acquirer shall describe which disclosures could not be made and the reasons why.

Notes to the Financial Statements

For the financial year ended 31 December 2011

49. New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published¹, and are relevant for the Group's accounting periods beginning on or after 1 January 2012 or later periods and which the Group has not early adopted:

FRS 8(30)(a)

- Amendments to FRS 101 - Secure Hyperinflation and Removal of Fixed Prices of First-time Adopters (effective for annual periods beginning on or after 1 July 2011)
- Amendments to FRS 107 Disclosures - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011)

The management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in the future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption.

FRS 8(30)(b)

Guidance notes

New or revised accounting standards and interpretations published at the date of issuance of the financial statements but not yet effective

FRS 8(30)

1. FRS 8 requires an entity to disclose the possible effects of future adoption of new or revised Accounting Standards and Interpretations that have been issued up to the date of issuance of the financial statements but are not yet effective.
2. It is not required to list all FRSs, INT FRSs and amendments to FRS that have been issued but are not effective at date of authorization of financial statements. Only those relevant to the entity's operations should be indicated.
3. The list of FRSs issued but not effective yet is complete as of 31 July, 2011. The potential impact of any new or revised FRSs, INT FRSs and amendments to FRS issued after that date but before the issue date of the financial statements should also be covered and disclosed.

50. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of PwC Holdings Limited on 19 March 2012.

FRS 10(17)

Notes to the Financial Statements

For the financial year ended 31 December 2011

51. Listing of significant¹ companies in the Group

SGX 715-718

| <u>Name of companies</u> | <u>Principal activities</u> | <u>Country of business/ incorporation</u> | <u>Equity holding</u> 2011 % | 2010 % |
|---|---------------------------------------|---|--|---------------|
| <u>Significant subsidiaries held by the Company</u> | | | | |
| PwC Construction Pte Ltd ^(a) | Construction of specialised equipment | Singapore | 100 | 100 |
| PwC Property (Singapore) Pte Ltd ^(a) | Investment holding | Singapore | 100 | 100 |
| PwC Furniture (PRC) Co., Ltd ^(d) | Sale of furniture | China | 85 | 85 |
| PwC Components (Singapore) Pte Ltd ^{(a),(h)} | Manufacture of component parts | Singapore | 45 | 45 |
| PwC Components (PRC) Co., Ltd ^(d) | Manufacture of component parts | China | 80 | 80 |
| PwC Components (China) Pte Ltd ^{(d),(g)} | Manufacture of component parts | China | 70 | – |
| PwC Furniture (Philippines) Pte Ltd ^(b) | Sale of furniture | Philippines | 70 | 70 |
| PwC Logistics (PRC) Co. Ltd ^(d) | Provision of logistics services | China | – | 100 |
| PwC Glass Sdn Bhd ^(c) | Manufacture of glass | Malaysia | 70 | 70 |
| <u>Significant joint venture held by the Company</u> | | | | |
| PwC JV Logistics (PRC) Co., Ltd ^{(d),(f)} | Provision of logistics services | China | 60 | 60 |
| <u>Significant associated companies held by the Company</u> | | | | |
| PwC A Property (Hong Kong) Limited ^(e) | Investment holding | Hong Kong | 35 | 35 |
| PwC A Furniture Sdn Bhd ^(c) | Sale of furniture | Malaysia | 25 | 25 |

(a) Audited² by PricewaterhouseCoopers LLP, Singapore³(b) Audited² by PricewaterhouseCoopers LLP, Philippines³(c) Audited² by Tan & Co³, Malaysia(d) Audited² by Great Wall CPA Company Limited³, People's Republic of China(e) Not required to be audited² under the laws of the country of incorporation

(f) Not consolidated as the entity is not controlled by the Group and deemed to be a joint venture as the Group shares the control of the entity

(g) Financial year ends on 30 September as they are acquired during the financial year⁴

(h) Deemed to be a subsidiary as the Group controls the entity via veto rights

(i) In accordance to Rule 716 of The Singapore Exchange Securities Trading Limited - Listing Rules, the Audit Committee and Board of Directors of the Company confirmed that they are satisfied that the appointment of different auditors for its subsidiaries and significant associated companies would not compromise the standard and effectiveness of the audit of the Company.

FRS 27(41)(b)

FRS 27(41)(c), CA 200(1)

FRS 27(41)(a)

Notes to the Financial Statements

For the financial year ended 31 December 2011

Guidance notes

Listing of significant companies in the Group

1. The term “significant” is not defined in FRS. However, in the SGX-ST Listing Manual, a subsidiary or associated company is considered significant if its net tangible assets represent 20% or more of the issuer’s consolidated net tangible assets, or its pre-tax profits account for 20% or more of the issuer’s consolidated pre-tax profits. In the absence of a formal definition in FRS, it is preferable to adopt this definition set out in the SGX-ST Listing Manual.
2. Companies listed on the Singapore Exchange are also required to disclose name(s) of auditing firm(s) of its significant subsidiaries and associated companies. It is a good practice for listed companies to inform the auditing firm(s) that their name(s) will be disclosed in the financial statements.
3. It shall be noted that under the SGX-ST Listing Manual, an issuer may appoint different auditors for its subsidiaries or significant associated companies provided that:
 - (i) the issuer’s board and audit committee are satisfied that the appointment would not compromise the standard and effectiveness of the audit of the issuer; or
 - (ii) the issuer’s subsidiary or associated company, is listed on a stock exchange.
4. It shall be noted that under the Companies Act, a holding company is required to ensure that the financial year of its subsidiaries coincides with its financial year within two years after incorporation and/or acquisition.

SGX 718

SGX 717

SGX 716

CA 200(1)

Additional Disclosure Requirements

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Additional requirements of Singapore Exchange Securities Trading Listing Manual

a) Corporate information

Company secretary

S.M. Barker

SGX 1207(1)

Registered office

350 Harbour Street

#30-00 PwC Centre

Singapore 049929

Telephone number : (65) 6226 5066

Facsimile number : (65) 6226 5788

Website : <http://www.pwcholdings.com.sg>

SGX 1207(2)

Share registrar

Independent Registry Firm

10 Collyer Quay #19-00

Ocean Building Singapore 049315

SGX 1207(3)

Auditor

PricewaterhouseCoopers LLP

8 Cross street #17-00

PWC Building Singapore 048424

Audit Partner : See Pea Ay

Year of appointment : 2008

SGX 713

(b) Material contracts¹

SGX 1207(8)

In 2011, the Company entered into a two-year contract with ABAS Consultancy Pte Ltd, which is a firm owned by the wife of Mr Ang Boon Chew, a director of the Company. The firm provided professional services to the Company amounting to \$212,000 (2010:\$149,000) during the financial year. Based on the long term contract, the Company was able to obtain professional services slightly below the normal price. As an average, services were charged at 5% below the normal price in 2011 (2010: 4% below the normal price).

(c) Directors' remuneration²

SGX 1207(11-14)

Please refer to information disclosed in Section (B) of the Corporate Governance Report.

Additional Disclosure Requirements

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Additional requirements of Singapore Exchange Securities Trading Listing Manual (continued)

(d) Auditors' fees³

| | 2011 \$'000 | 2010 \$'000 | |
|---|----------------|----------------|----------------|
| Fees on audit services paid/payable to ³ : | | | SGX 1207(6)(a) |
| - Auditor of the Company | 440 | 386 | |
| - Other auditors* | 410 | 358 | |
| Fees on non-audit services paid/payable to ³ : | | | |
| - Auditor of the Company | 125 | 120 | |
| - Other auditors* | 210 | 212 | |
| | <u>1,185</u> | <u>1,076</u> | |

*Includes the network of member firms of PricewaterhouseCoopers International Limited (PwCIL).

(e) Appointment of auditors

SGX 1207(6)(c)

The Group has complied with Rules 712 and Rule 715 or 716 of the Listing Manual issued by Singapore Exchange Securities Trading Limited in relation to its auditors⁴.

(f) Review of the provision of non-audit services by the auditors⁵

The Audit Committee has undertaken a review of non-audit services provided by the auditor⁵ and they would not, in the opinion of the Audit Committee's opinion, affect their independence⁶.

SGX 1207(6)(b)

(g) Internal controls⁷

Please refer to information disclosed in Section (C.5) of the Corporate Governance Report

SGX 1207(10)

Additional Disclosure Requirements

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Additional requirements of Singapore Exchange Securities Trading Listing Manual (continued)

(h) Properties of the Group

Major properties held for development

SGX 1207(10)(a)

| <u>Location</u> | <u>Description</u> | <u>Intended Use</u> | <u>Stage of completion</u> | <u>Expected date of completion</u> | <u>Site area (sq m)</u> | <u>Gross floor area (sq m)</u> | <u>Group's effective interest in the property</u> |
|--------------------|--------------------|---------------------|----------------------------|------------------------------------|-------------------------|--------------------------------|---|
| Upper Thomson Road | 3-storey building | Commercial | 20% | June 2012 | 400 | 1,122 | 100% |

Major properties held for development

SGX 1207(10)(b)

| <u>Location</u> | <u>Description</u> | <u>Existing Use</u> | <u>Tenure</u> | <u>Unexpired term of lease</u> |
|------------------------|-------------------------|---------------------|---------------|--------------------------------|
| Cairnhill, Singapore | Apartment unit | Residential | Freehold | – |
| Jurong East, Singapore | 2-storey apartment unit | Residential | Leasehold | 95 |
| Tampines, Singapore | 5-storey building | Commercial | Leasehold | 70 |

(i) Interested person transactions

Aggregate value of all interested person transactions during the financial year under review (excluding transactions less than \$100,000 each)

SGX 1207(16)
SGX 907

| <u>Name of interested person</u> | <u>Transactions not conducted under shareholders' mandate pursuant to Rule 920</u> | | <u>Transactions conducted under shareholders' mandate pursuant to Rule 920</u> | |
|--|--|---------------|--|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Abacus Subsidiary Pte Ltd: - sale of goods | – | – | 470 | 729 |
| Sandoz Family Business Pte Ltd: - sale of plant and equipment | 600 | – | – | – |
| ABAS Consultancy Pte Ltd: - purchase of professional services | – | 361 | – | – |

Additional Disclosure Requirements

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Guidance notes

Additional requirements of Singapore Exchange Securities Trading Listing Manual

Material contracts

1. Disclosure is required of material contracts of the Company and its subsidiaries involving the interests of the chief executive officer, each director or controlling shareholder, either still subsisting at the end of the financial year or if not then subsisting, entered into since the end of the previous financial year. Where no material contract has been entered into, the following negative statement can be considered:

SGX 1207(8)

“There are no material contracts entered into by the Company or any of its subsidiaries involving the interest of the chief executive officer, any director or controlling shareholder, either still subsisting at the end of the year or entered into since the end of the previous financial year.”

Directors’ remuneration

2. With effect from 29 September 2011, a listed entity must make disclose as recommended in the Code of Corporate Governance, or otherwise disclose and explain any deviation from the recommendation.

SGX 1207(11)

Auditors’ fees

3. With effect from 29 September 2011, disclosure must be made on the aggregate of the fees paid to the auditors, broken down into audit and non-audit services. If there are no audit or non-audit fees paid, an appropriate negative statement shall be made.

SGX 1207(6)a

There may also be fees paid to the auditor of the Company which are not included in determining the Group/Company’s profit from operations, e.g. those fees that are capitalised or charged immediately to equity. It is appropriate to include such fees for this disclosure note.

4. With effect from 29 September 2011, the annual report shall include a confirmation by the Audit Committee that it has undertaken a review of all non-audit services provided by the auditors and they would not, in the Audit Committee’s opinion, affect the independence of the auditors.

SGX 1207(6)(b)

5. With effect from 1 April 2004, a public company shall undertake a review of the fees, expenses and emoluments of its auditor to determine whether the independence of the auditor has been compromised under prescribed conditions, and the outcome of the review shall be sent to all persons entitled to receive notice of general meetings of the company. This outcome is normally communicated through the Directors’ Report or the Corporate Governance Report.

CA 206(1A)

This review shall be undertaken if the total amount of the fees paid to the auditor for non-audit services in any financial year of the company exceeds 50% of the total amount of fees paid to the auditor in that financial year.

6. The Audit Committee shall also provide a confirmation in the annual report that it has undertaken a review of non-audit services provided by the auditor and they would not, in the Audit Committee’s opinion, affect the independence of the auditor.

SGX 1207(6)(b)

Internal controls

7. With effect from 29 September 2011, the Board with the concurrence of the Audit Committee shall provide an opinion on the adequacy of the internal controls, addressing financial, operational and compliance risks.

SGX 1207(10)

Additional Disclosure Requirements

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Shareholders' information at 12 March 2012¹

Preference shareholdings

SGX 1207(9)(a)

Issued and Paid-Up Capital : \$30,000,000
 Class of Shares : Preference shares
 Voting Rights : No voting rights

The preference shares are held entirely by PwC Corporate Limited, the immediate holding corporation of the Company.

SGX 1207(9)(b)

Ordinary shareholdings

SGX 1207(9)(a)

Issued and Paid-Up Capital : \$41,495,000
 Class of Shares : Ordinary shares
 Voting Rights : One vote per share

| | No. of shareholders | % | No. of ordinary shares | % |
|-----------------------------|------------------------|--------|---------------------------|--------|
| No. of ordinary shares held | | | | |
| 1 – 999 | 4,436 | 75.73 | 4,224,050 | 17.56 |
| 1,000 – 5,000 | 1,402 | 23.93 | 2,254,930 | 9.38 |
| 5,001 – 10,000 | 2 | 0.03 | 19,240 | 0.08 |
| More than 10,000 | 18 | 0.31 | 17,551,780 | 72.98 |
| | 5,858 | 100.00 | 24,050,000 | 100.00 |

SGX 1207(9)(b)

Substantial shareholders

SGX 1207(9)(c)

As shown in the Register of Substantial Shareholders:

| | ← Direct interests | Number of ordinary shares Deemed interests | → Beneficial interests |
|------------------------|-----------------------|--|---------------------------|
| PwC Corporate Limited | 7,130,825 | – | 7,130,825 |
| Mr David Grey | 1,270,000 | 1,500,000 | 2,770,000 |
| Mr Sandoz Wood | 3,609,905 | – | 3,609,905 |
| Sun Holdings (Pte) Ltd | 3,609,905 | – | 3,609,906 |

Mr David Grey is deemed to have an interest in 1,500,000 ordinary shares in PwC Holdings Ltd via his holdings of 1,000,000 ordinary shares in PwC Global Limited, which in turn holds 10,000,000 ordinary shares in PwC Corporate Limited.

Additional Disclosure Requirements

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Shareholders' information at 12 March 2012¹ (continued)

Twenty largest ordinary shareholders

SGX 1207(9)d

As shown in the Register of Members and Depository Register:

| | No. of ordinary shares | % |
|--------------------------------|---------------------------|--------------|
| PwC Corporate Limited | 7,130,825 | 29.65 |
| Mr Sandoz Wood | 3,609,905 | 15.01 |
| Sun Holdings (Pte) Ltd | 3,609,905 | 15.01 |
| Mr David Grey | 2,770,000 | 11.52 |
| MacPherson Investments Pte Ltd | 103,415 | 0.43 |
| Mr Ang Boon Chew | 97,000 | 0.40 |
| Sembawang Private Ltd | 36,075 | 0.15 |
| Mr Soh Koh Hong | 26,455 | 0.11 |
| Sommerset Holdings Ptd Ltd | 26,455 | 0.11 |
| Geylang Investments Co Pte Ltd | 24,050 | 0.10 |
| Tanglin Halt (Pte) Ltd | 21,645 | 0.09 |
| Changi Holdings Pte Ltd | 14,430 | 0.06 |
| Ms Tham Lee Keng | 14,430 | 0.06 |
| Padang Consolidated Ltd | 14,430 | 0.06 |
| Whitley Investments Ltd | 14,430 | 0.06 |
| Cairnhill Co Pte Limited | 14,430 | 0.06 |
| Bukit Timah Haulage Co Ltd | 11,875 | 0.05 |
| Bedok nominees Ltd | 12,025 | 0.05 |
| Madam Ng Pin Pin | 9,620 | 0.04 |
| Kranji Equity Ltd | 9,620 | 0.04 |
| | 17,571,020 | 73.06 |

Based on the information available to the Company as at 12 March 2012, approximately 22.11% of the issued ordinary shares of the Company are held by the public and therefore, Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited has been complied with.

SGX 1207(9)e

Guidance notes

Shareholders' information

- Shareholders' information shall be made up to a date not earlier than one month from the date of notice of the annual general meeting or summary financial statements, whichever is earlier.

SGX 1207(9)

Additional Illustrative Disclosures

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Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 1: Alternative presentations for statement of comprehensive income

Scenario 1: One-statement presentation of statement of comprehensive income based on a classification of expenses by nature

| | Note | 2011 ³ \$'000 | 2010 ³ \$'000 | |
|--|-------|-----------------------------|-----------------------------|--------------------------------|
| Continuing operations⁴ | | | | |
| Sales | 4 | 210,214 | 112,360 | FRS 1(82)(a) |
| Other income | 7 | 3,898 | 1,166 | FRS 1(102) |
| Other losses – net | 8 | (1,383) | (1,611) | |
| Expenses | | | | |
| - Purchases of inventories | | (59,401) | (23,688) | FRS 1(102) |
| - Amortisation, depreciation and impairment | 5 | (23,100) | (10,097) | FRS 1(102) |
| - Employee compensation | 6 | (40,090) | (15,500) | FRS 1(102) |
| - Sub-contractors charges | | (12,400) | (7,700) | |
| - Advertising | | (10,871) | (6,952) | |
| - Rental on operating leases | | (10,588) | (8,697) | FRS 17 (35)(c) |
| - Research | | (473) | (200) | FRS 38 (126) |
| - Transportation | | (7,763) | (5,876) | |
| - Reversal of inventory write-down/(inventory write-down) | | 200 | (350) | FRS 2(36)(e,f) |
| - Finance | 9 | (7,073) | (9,060) | FRS 1(82)(b) |
| - Other | | (1,478) | (672) | |
| Changes in inventories and construction contract work-in-progress | | 7,279 | 2,950 | FRS 1(102) |
| Total expenses | | (165,758) | (85,842) | |
| Share of (loss)/profit of associated companies ⁵ | | (174) | 145 | FRS 1(82)(c) |
| Profit before income tax | | 46,797 | 26,218 | |
| Income tax expense | 10(a) | (14,897) | (7,718) | FRS 1(82)(d) |
| Profit from continuing operations⁴ | | 31,900 | 18,500 | |
| Discontinued operations⁴ | | | | |
| Profit/(loss) from discontinued operations | 11 | 100 | (480) | FRS 1(82)(e) FRS 105(33)(a) |
| Total profit⁴ | | 32,000 | 18,020 | FRS 1(82)(f) |
| Other comprehensive income⁷: | | | | |
| Financial assets, available-for-sale | | | | FRS 1(82)(g) |
| - Fair value gains | | 582 | 67 | |
| - Reclassification ⁸ | | (164) | – | |
| Cash flow hedges | | | | |
| - Fair value gains | | 342 | 328 | |
| - Reclassification ⁸ | | (279) | (315) | |
| Currency translation differences arising on consolidation | | 2,334 | (118) | |
| Reclassification ⁸ of currency translation reserves on disposal of a subsidiary | | (1,200) | – | |
| Revaluation gains on property, plant and equipment ⁹ | | 207 | 852 | |
| Share of other comprehensive income of associated companies | | 27 | – | |
| Change in tax rate | | – | 50 | |
| Other comprehensive income for the year, net of tax | | 1,849 | 864 | |
| Total comprehensive income | | 33,849 | 18,884 | |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 1: Alternative presentations for statement of comprehensive income (continued)

Scenario 1: One-statement presentation of statement of comprehensive income based on a classification of expenses by nature (continued)

| | Note | 2011 ³ \$'000 | 2010 ³ \$'000 | |
|---|------|-----------------------------|-----------------------------|--------------|
| Profit attributable to: | | | | FRS 1(83)(a) |
| Equity holders of the Company | | 29,450 | 17,096 | |
| Non-controlling interest | | 2,550 | 924 | |
| | | <u>32,000</u> | <u>18,020</u> | |
| Total comprehensive income attributable to: | | | | FRS 1(83)(b) |
| Equity holders of the Company | | 30,742 | 17,847 | |
| Non-controlling interest | | 3,107 | 1,037 | |
| | | <u>33,849</u> | <u>18,884</u> | |
| Earnings per share⁶ for profit from continuing and discontinued operations attributable to equity holders of the Company (\$ per share) | | | | FRS 33(66) |
| Basic earnings per share | 12 | | | |
| - From continuing operations | | 1.31 | 0.90 | |
| - From discontinued operations | | * | (0.02) | |
| Diluted earnings per share | 12 | | | FRS 33(68) |
| - From continuing operations | | 1.16 | 0.87 | |
| - From discontinued operations | | * | (0.02) | |

* Less than \$0.01

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 1: Alternative presentations for statement of comprehensive income (continued)

Scenario 2: Two-statement presentation of statement of comprehensive income based on a classification of expenses by function

Consolidated Income Statement:

| | Note | 2011 ³ \$'000 | 2010 ³ \$'000 | |
|---|-------|-----------------------------|-----------------------------|--------------------------------|
| Continuing operations⁴ | | | | |
| Sales | 4 | 210,214 | 112,360 | FRS 1(82)(a) |
| Cost of sales | | (77,366) | (46,682) | FRS 1(103) |
| Gross profit | | 132,848 | 65,678 | FRS 1(103) |
| Other income | 7 | 3,898 | 1,166 | FRS 1(103) |
| Other losses - net | 8 | (1,383) | (1,611) | |
| Expenses | | | | |
| - Distribution and marketing | | (52,140) | (19,993) | FRS 1(103) |
| - Administrative | | (29,179) | (10,107) | FRS 1(103) |
| - Finance | 9 | (7,073) | (9,060) | FRS 1(82)(b) |
| Share of (loss)/profit of associated companies ⁵ | | (174) | 145 | FRS 1(82)(c) |
| Profit before income tax | | 46,797 | 26,218 | |
| Income tax expense | 10(a) | (14,897) | (7,718) | FRS 1(82)(d) |
| Profit from continuing operations⁴ | | 31,900 | 18,500 | |
| Discontinued operations⁴ | | | | |
| Profit/(loss) from discontinued operations | 11 | 100 | (480) | FRS 1(82)(e) FRS 105(33)(a) |
| Total profit⁴ | | 32,000 | 18,020 | FRS 1(82)(f) |
| Attributable to: | | | | |
| Equity holders of the Company | | 29,450 | 17,096 | FRS 1(83)(a) |
| Non-controlling interests | | 2,550 | 924 | |
| | | 32,000 | 18,020 | |
| Earnings per share⁶ for profit from continuing and discontinued operations attributable to equity holders of the Company (\$ per share) | | | | FRS 33(66) |
| Basic earnings per share | 12 | | | FRS 33(68) |
| - From continuing operations | | 1.31 | 0.90 | |
| - From discontinued operations | | * | (0.02) | |
| Diluted earnings per share | 12 | | | |
| - From continuing operations | | 1.16 | 0.87 | |
| - From discontinued operations | | * | (0.02) | |

* Less than \$0.01

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 1: Alternative presentations for statement of comprehensive income (continued)

Scenario 2: Two-statement presentation of statement of comprehensive income based on a classification of expenses by function (continued)

Consolidated statement of comprehensive income:

| | Note | 2011 ³ \$'000 | 2010 ³ \$'000 | |
|--|------|-----------------------------|-----------------------------|--------------|
| Profit for the year | | 32,000 | 18,020 | |
| Other comprehensive income⁷: | | | | FRS 1(82)(g) |
| Financial assets, available-for-sale | | | | |
| - Fair value gains | | 582 | 67 | |
| - Reclassification ⁸ | | (164) | – | |
| Cash flow hedges | | | | |
| - Fair value gains | | 342 | 328 | |
| - Reclassification ⁸ | | (279) | (315) | |
| Currency translation differences arising on consolidation | | 2,334 | (118) | |
| Reclassification ⁸ of currency translation reserves on disposal of a subsidiary | | (1,200) | – | |
| Revaluation gains on property, plant and equipment ⁹ | | 207 | 852 | |
| Share of other comprehensive income of associated companies | | 27 | – | |
| Change in tax rate | | – | 50 | |
| Other comprehensive income, net of tax | | 1,849 | 864 | |
| Total comprehensive income | | 33,849 | 18,884 | |
| Total comprehensive income attributable to: | | | | FRS 1(83)(b) |
| Equity holders of the Company | | 30,742 | 17,847 | |
| Non-controlling interest | | 3,107 | 1,037 | |
| | | 33,849 | 18,884 | |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 1: Alternative presentations for statement of comprehensive income (continued)

Scenario 3: Two-statement presentation of statement of comprehensive income based on a classification of expenses by nature

Consolidated income statement:

| | Note | 2011 ³ \$'000 | 2010 ³ \$'000 | |
|---|-------|-----------------------------|-----------------------------|--------------------------------|
| Continuing operations⁴ | | | | |
| Sales | 4 | 210,214 | 112,360 | FRS 1(82)(a) |
| Other income | 7 | 3,898 | 1,166 | FRS 1(102) |
| Other losses – net | 8 | (1,383) | (1,611) | |
| Expenses | | | | |
| - Purchases of inventories | | (59,401) | (23,688) | FRS 1(102) |
| - Amortisation, depreciation and impairment | 5 | (23,100) | (10,097) | FRS 1(102) |
| - Employee compensation | 6 | (40,090) | (15,500) | FRS 1(102) |
| - Sub-contractors charges | | (12,400) | (7,700) | |
| - Advertising | | (10,871) | (6,952) | |
| - Rental on operating leases | | (10,588) | (8,697) | FRS 17 (35)(c) |
| - Research | | (473) | (200) | FRS 38 (126) |
| - Transportation | | (7,763) | (5,876) | |
| - Reversal of inventory write-down/(inventory write-down) | | 200 | (350) | FRS 2(36)(e,f) |
| - Finance | 9 | (7,073) | (9,060) | FRS 1(82)(b) |
| - Other | | (1,478) | (672) | |
| Changes in inventories and construction contract work-in-progress | | 7,279 | 2,950 | FRS 1(102) |
| Total expenses | | (165,758) | (85,842) | |
| Share of (loss)/profit of associated companies ⁵ | | (174) | 145 | FRS 1(82)(c) |
| Profit before income tax | | 46,797 | 26,218 | |
| Income tax expense | 10(a) | (14,897) | (7,718) | FRS 1(82)(d) |
| Profit from continuing operations⁴ | | 31,900 | 18,500 | |
| Discontinued operations⁴ | | | | |
| Profit/(loss) from discontinued operations | 11 | 100 | (480) | FRS 1(82)(e) FRS 105(33)(a) |
| Total profit⁴ | | 32,000 | 18,020 | FRS 1(82)(f) |
| Attributable to: | | | | FRS 1(83)(a) |
| Equity holders of the Company | | 29,450 | 17,096 | |
| Non-controlling interests | | 2,550 | 924 | |
| | | 32,000 | 18,020 | |
| Earnings per share⁶ for profit from continuing and discontinued operations attributable to equity holders of the Company (\$ per share) | | | | FRS 33(66) |
| Basic earnings per share | 12 | | | |
| - From continuing operations | | 1.31 | 0.90 | |
| - From discontinued operations | | * | (0.02) | |
| Diluted earnings per share | 12 | | | FRS 33(68) |
| - From continuing operations | | 1.16 | 0.87 | |
| - From discontinued operations | | * | (0.02) | |

* Less than \$0.01

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 1: Alternative presentations for statement of comprehensive income (continued)

Scenario 3: Two-statement presentation of statement of comprehensive income based on a classification of expenses by nature (continued)

Statement of comprehensive income:

| | Note | 2011 \$'000 | 2010 \$'000 | |
|--|------|----------------|----------------|--------------|
| Profit for the year | | 32,000 | 18,020 | |
| Other comprehensive income: | | | | FRS 1(82)(g) |
| Financial assets, available-for-sale | | | | |
| - Fair value gains | | 582 | 67 | |
| - Reclassification ⁸ | | (164) | – | |
| Cash flow hedges | | | | |
| - Fair value gains | | 342 | 328 | |
| - Reclassification ⁸ | | (279) | (315) | |
| Currency translation differences arising on consolidation | | 2,334 | (118) | |
| Reclassification ⁸ of currency translation reserves on disposal of a subsidiary | | (1,200) | – | |
| Revaluation gains on property, plant and equipment ⁹ | | 207 | 852 | |
| Share of other comprehensive income of associated companies | | 27 | – | |
| Change in tax rate | | – | 50 | |
| Other comprehensive income, net of tax | | 1,849 | 864 | |
| Total comprehensive income | | 33,849 | 18,884 | |
| Total comprehensive income attributable to: | | | | FRS 1(83)(b) |
| Equity holders of the Company | | 30,742 | 17,847 | |
| Non-controlling interest | | 3,107 | 1,037 | |
| | | 33,849 | 18,884 | |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 2: Revenue recognition – multi-element arrangements

Extracts of significant accounting policies:

Revenue recognition

Multiple-element arrangements

FRS 18(13)

The Group offers certain arrangements where a customer can purchase certain electronic equipment, together with a two-year maintenance contract. When such multiple-element arrangements exist, the amount recognised as revenue upon the sale of the equipment is the fair value of the equipment in relation to the fair value of the arrangement taken as a whole and is recognised when the equipment is delivered and the customer accepted the delivery. The revenue relating to the service element, which represents the fair value of the maintenance arrangement in relation to the fair value of the arrangement taken as a whole, is recognised over the maintenance period evenly. The fair value of each element is determined based on the current market price when the elements are sold separately.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration. To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 3: Provision for dismantlement, removal and restoration

Extracts of significant accounting policies:

Property, plant and equipment

Measurement

Components of costs

FRS 16(16)(c)

“.....The projected cost of dismantlement, removal or restoration is also recognised as part of the cost of property, plant and equipment if the obligation for the dismantlement, removal or restoration is incurred as a consequence of either acquiring the asset or using the asset for purpose other than to produce inventories.”

Provisions

Provisions for asset dismantlement, removal or restoration 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 amounts have been reliably estimated.

FRS 37(14)

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

FRS 37(36)

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

INT FRS 101(5)

Extracts of notes to the financial statements:

Dismantlement, removal or restoration of property, plant and equipment

FRS 37(85)(a)

The Group uses various chemicals in the manufacture of component parts. A provision is recognised for the present value of costs to be incurred for the restoration of the manufacturing sites. It is expected that \$[] will be used during 2012 and \$[] during 2013. Total expected costs to be incurred are \$[] (2010: \$[]).

Movement in this provision is as follows:

| | <u>Group</u> | | <u>Company</u> | | |
|-----------------------------|--------------|--------|----------------|--------|---------------|
| | 2011 | 2010 | 2011 | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Beginning of financial year | [] | [] | [] | [] | FRS 37(84)(a) |
| Provision made | [] | [] | [] | [] | FRS 37(84)(b) |
| Provision utilised | [] | [] | [] | [] | FRS 37(84)(c) |
| Amortisation of discount | [] | [] | [] | [] | FRS 37(84)(e) |
| End of financial year | [] | [] | [] | [] | FRS 37(84)(a) |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 4: Post-employment benefits – pension and medical benefits

Extracts of significant accounting policies:

Employee compensation

(a) Pension benefits

The Group operates both defined benefit and defined contribution post-employment benefit plans.

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the Central Provident Fund on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

FRS 19(7)

FRS 19(44)

Defined benefit plans are post-employment benefit pension plans other than defined contribution plans. Defined benefit plans typically define the amount of benefit that an employee will receive on or after retirement, usually dependent on one or more factors such as age, years of service and compensation.

FRS 19(7)

The liability recognised in the balance sheet in respect of a defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market yields of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have tenures approximating to that of the related post-employment benefit obligations.

FRS 19(54)

FRS 19(64)

FRS 19(78)

Actuarial gains and losses¹ are recognised in other comprehensive income in the period when they arise.

FRS 19(93-93D)

FRS 19(120A)(a)

Past service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

FRS 19(96)

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 4: Post-employment benefits – pension and medical benefits (continued)

Extracts of significant accounting policies (continued):

(b) Post-employment medical benefits

Some Group companies provide post-employment healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit plans. Actuarial gains and losses¹ are recognised in other comprehensive income in the period when they arise. These obligations are valued annually by independent qualified actuaries.

FRS 19(120A)(b)

FRS 19(120A)(a)

Guidance notes

Post-employment benefits

1. There are three approaches to account for actuarial gains and losses, namely:

- (a) corridor approach – in which actuarial gains and losses outside the corridor threshold are recognised in profit or loss over the expected average remaining working lives of the participants of the plan;
- (b) recognising all actuarial gains and losses in the period in which they occur, in other comprehensive income, provided that the entity does so for all of its defined benefit plans and all of its actuarial gains and losses. Such actuarial gains and losses should be presented in the statement of comprehensive income; and
- (c) any systematic method that results in faster recognition of actuarial gains and losses than the corridor approach. Such permitted methods include immediate recognition of all actuarial gains and losses to profit or loss. Although this method introduces significant volatility to profit or loss, it is easy to implement.

FRS 19(92-93)

FRS 19(93A)

FRS 19(93)

2. When an entity has more than one defined benefit plan, disclosures may be made in total, separately for each plan, or in such groupings as are considered to be more useful. It may be useful to distinguish groupings by criteria such as follows:

FRS 19(122)

- (a) the geographical location of the plans, e.g. by distinguishing domestic plans from foreign plans; or
- (b) whether plans are subject to materially different risks, e.g. by distinguishing flat salary pension plans from final salary pension plans and from post-employment medical plans.

When an entity provides disclosures in total for a grouping of plans, such disclosures are provided in the form of weighted averages or of relatively narrow ranges.

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 4: Post-employment benefits – pension and medical benefits (continued)

Extracts of notes to the financial statements (continued):

| | 2011 \$'000 | Group 2010 \$'000 | |
|--|----------------|-------------------------|-------------------|
| Obligations recognised in the balance sheet for: | | | |
| Pension benefits | 3,225 | 1,532 | |
| Post-employment medical benefits | 1,410 | 701 | |
| | <u>4,635</u> | <u>2,233</u> | |
| Expenses charged to profit or loss: | | | |
| Pension benefits | 755 | 488 | |
| Post-employment medical benefits | 149 | 107 | |
| | <u>904</u> | <u>595</u> | |
| (a) Pension benefits | | | |
| | 2011 \$'000 | Group 2010 \$'000 | |
| The amount recognised in the balance sheet is determined as follows: | | | FRS 19(120A)(d,f) |
| Present value of funded obligations | 6,155 | 2,943 | |
| Fair value of plan assets | (5,991) | (2,797) | |
| | <u>164</u> | <u>146</u> | |
| Present value of unfunded obligations | 3,206 | 1,549 | |
| Unrecognised past service cost | (145) | (163) | |
| Liability recognised in the balance sheet | <u>3,225</u> | <u>1,532</u> | |
| | | | |
| | 2011 \$'000 | Group 2010 \$'000 | |
| The amounts recognised in profit or loss are as follows: | | | FRS 19(120A)(g) |
| Current service cost | 751 | 498 | |
| Interest cost | 431 | 214 | |
| Expected return on plan assets | (510) | (240) | |
| Past service cost | 18 | 16 | |
| Curtailment | 65 | – | |
| | <u>755</u> | <u>488</u> | |
| Included in: | | | FRS 19(120A)(g) |
| Cost of goods sold | 516 | 319 | |
| Administrative expenses | 239 | 169 | |
| | <u>755</u> | <u>488</u> | |
| Actual return on plan assets | <u>495</u> | <u>235</u> | FRS 19(120A)(m) |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 4: Post-employment benefits – pension and medical benefits (continued)

Extracts of notes to the financial statements (continued):

Movement in the defined benefit obligation is as follows:

FRS 19(120A)(c)

| | 2011 | Group 2010 |
|------------------------------------|--------|---------------|
| | \$'000 | \$'000 |
| Beginning of financial year | 4,492 | 3,479 |
| Current service cost | 751 | 498 |
| Interest cost | 431 | 214 |
| Contributions by plan participants | 55 | 30 |
| Actuarial (gains)/losses | (15) | 495 |
| Currency translation differences | (43) | (103) |
| Benefits paid | (66) | (121) |
| Subsidiaries acquired | 3,691 | – |
| Curtailments | 65 | – |
| End of financial year | 9,361 | 4,492 |

Movement in the fair value of plan assets is as follows:

FRS 19(120A)(e)

| | 2011 | Group 2010 |
|------------------------------------|--------|---------------|
| | \$'000 | \$'000 |
| Beginning of financial year | 2,797 | 2,264 |
| Expected return on plan assets | 510 | 240 |
| Actuarial losses | (15) | (5) |
| Currency translation differences | 25 | (22) |
| Contributions by the employer | 908 | 411 |
| Contributions by plan participants | 55 | 30 |
| Benefits paid | (66) | (121) |
| Subsidiaries acquired | 1,777 | – |
| End of financial year | 5,991 | 2,797 |

The principal actuarial assumptions used were as follows:

FRS 19(120A)(n)

| | 2011 | Group 2010 |
|--------------------------------|------|---------------|
| Discount rate | 7.0% | 6.8% |
| Expected return on plan assets | 8.5% | 8.3% |
| Future salary increases | 5.0% | 4.5% |
| Future pension increases | 3.0% | 2.5% |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 4: Post-employment benefits – pension and medical benefits (continued)

Extracts of Notes to the Financial Statements (continued):

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

The average remaining life expectancy in years of a pensioner retiring at age 65 is as follows:

| | 2011 | 2010 |
|--------|------|------|
| Male | 18.5 | 18.5 |
| Female | 22.0 | 22.0 |

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the Philippines. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

FRS 19(120A)(a,b)

In addition to the assumptions set out above, the main actuarial assumption is a long-term increase in health costs of 8.0% a year (2010: 7.6%).

FRS 19(120A)(n)

The amount recognised in the balance sheet is determined as follows:

FRS 19(120A)(d,f)

| | 2011 | Group 2010 |
|---|--------|---------------|
| | \$'000 | \$'000 |
| Present value of funded obligations | 705 | 340 |
| Fair value of plan assets | (620) | (302) |
| | 85 | 38 |
| Present value of unfunded obligations | 1,325 | 663 |
| Liability recognised in the balance sheet | 1,410 | 701 |

The amounts recognised in profit or loss are as follows:

FRS 19(120A)(g)

| | 2011 | Group 2010 |
|--------------------------------|--------|---------------|
| | \$'000 | \$'000 |
| Current service cost | 153 | 107 |
| Interest cost | 49 | 25 |
| Expected return on plan assets | (53) | (25) |
| | 149 | 107 |

Included in:

| | | |
|-------------------------|-----|-----|
| Cost of goods sold | 102 | 71 |
| Administrative expenses | 47 | 36 |
| | 149 | 107 |

FRS 19(120A)(g)

| | | |
|------------------------------|----|----|
| Actual return on plan assets | 51 | 24 |
|------------------------------|----|----|

FRS 19(120A)(m)

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 4: Post-employment benefits – pension and medical benefits (continued)

Extracts of notes to the financial statements (continued):

Movement in the defined benefit obligation for post-employment medical plan is as follows:

FRS 19(120A)(c)

| | <u>Group</u> | |
|----------------------------------|--------------|--------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Beginning of financial year | 1,003 | 708 |
| Current service cost | 153 | 107 |
| Interest cost | 49 | 25 |
| Actuarial (gains)/losses | (2) | 204 |
| Currency translation differences | 25 | (41) |
| Subsidiaries acquired | 802 | – |
| End of financial year | <u>2,030</u> | <u>1,003</u> |

Movement in the fair value of plan assets for post-employment medical plan is as follows:

FRS 19(120A)(e)

| | <u>Group</u> | |
|----------------------------------|--------------|------------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Beginning of financial year | 302 | 207 |
| Expected return on plan assets | 53 | 25 |
| Actuarial losses | (2) | (1) |
| Currency translation differences | 5 | (2) |
| Contributions by the employer | 185 | 73 |
| Subsidiaries acquired | 77 | – |
| End of financial year | <u>620</u> | <u>302</u> |

The effect of a 1% change in the assumed medical cost trend rate is as follows:

FRS 19(120A)(o)

| | <u>Group</u> | |
|---|--------------|--------------|
| | Increase | Decrease |
| | \$'000 | \$'000 |
| Effect on the aggregate of the current service cost and interest cost | 24 | (20) |
| Effect on the defined benefit obligation | <u>366</u> | <u>(313)</u> |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 4: Post-employment benefits – pension and medical benefits (continued)

Extracts of notes to the financial statements (continued):

The amounts recognised in other comprehensive income for pension and post-employment medical benefits were as follows:

| | 2011 \$'000 | 2010 \$'000 | |
|---|----------------|----------------|-----------------|
| Actuarial losses recognised during financial year | – | 705 | FRS 19(120A)(h) |
| Cumulative actuarial losses recognised | <u>705</u> | <u>705</u> | FRS 19(120A)(i) |

Plan assets of pension and post-employment medical benefits comprise the following: FRS 19(120A)(j)

| | Group | | | |
|-------------------|--------------|------------|--------------|------------|
| | 2011 | | 2010 | |
| | \$'000 | % | \$'000 | % |
| Equity securities | 3,256 | 49 | 1,595 | 51 |
| Debt securities | 2,571 | 39 | 855 | 28 |
| Other | 784 | 12 | 649 | 21 |
| | <u>6,611</u> | <u>100</u> | <u>3,099</u> | <u>100</u> |

Plan assets include the Company's ordinary shares with a fair value of \$136,000 (2010: \$126,000) and a building occupied by the Group with a fair value of \$612,000 (2010: \$609,000). FRS 19(120A)(k)

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets. FRS 19(120A)(l)

Expected contributions to pension post employment medical benefit plans for the financial year ending 31 December 2011 are \$1,150,000. FRS 19(120A)(q)

| | Group | | | | |
|---|--------------|--------------|--------------|--------------|--|
| | 2011 | 2010 | 2009 | 2008 | |
| | \$'000 | \$'000 | \$'000 | \$'000 | |
| Beginning of financial year | | | | | |
| Present value of defined benefit obligation | 11,391 | 5,495 | 4,187 | 3,937 | |
| Fair value of plan assets | (6,611) | (3,099) | (2,471) | (2,222) | |
| Deficit | <u>4,780</u> | <u>2,396</u> | <u>1,716</u> | <u>1,715</u> | |
| Experience adjustments on plan liabilities | (326) | 125 | 55 | – | |
| Experience adjustments on plan assets | <u>(17)</u> | <u>(6)</u> | <u>(197)</u> | <u>–</u> | |

FRS 19(120A)(p)

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 5: Defaults and breaches of loans payable

Defaults of loan payments

Extracts of notes to the financial statements on borrowing:

Scenario 1:

Defaults of loan payments – classification of loan as “current” at reporting date

FRS 107(18)

The Company has experienced a temporary shortage of funding because cash outflows in the second quarter for business expansion in [countries] were higher than anticipated. As a result, interest payables of \$[] on the Company’s loan with Bank A due by [date] remained unpaid as at 31 December 2011. The carrying amount of the loan payable in default as at 31 December 2011 is \$[].

In January 2012, the Company obtained a new loan with Bank B having a maturity of three years to settle its existing debt with Bank A. The loan with Bank A was settled on 27 January 2012.

The loan with Bank A is presented as current liability as at 31 December 2011.

FRS 1(73)

Scenario 2:

Breaches of loan payments and classification of loan as “non-current” at reporting date

Interest payments of \$[] on the Company’s bank borrowings with a carrying amount of \$[] was overdue as at 30 September 2011. The Company experienced a temporary shortage of funding because cash outflows in the second and third quarters for business expansion in [countries] were higher than anticipated. As a result, interest payables of \$[] due by [date] remained unpaid.

FRS 107(18)

Subsequently during the fourth quarter the Company has paid all overdue amounts (including additional interest and penalties for the late payment). As a result, the outstanding balance is presented as a non-current liability as at 31 December 2011.

FRS 1(73,74)

Management expects that the Company will be able to meet all contractual obligations from borrowings on a timely basis going forward.

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 5: Defaults and breaches of loans payable

Breaches of loan covenants

Extracts of Notes to the financial statements on borrowings:

Scenario 1:

Breaches of loan covenants – classification of loan as “current” at reporting date

FRS 107(19)

Some of the Company’s loan agreements (classified as non-current during the year) are subjected to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Company did not fulfil the debt/equity ratio as required in the contract for a credit line of \$[], of which the Company has currently drawn an amount of \$[].

FRS 1 (73),(74)

FRS 1(135)(e)

Due to this breach of the covenant clause, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount of \$[]. The outstanding balance is presented as a current liability as at 31 December 2011.

The bank had not requested early repayment of the loan as of the date when these financial statements were approved by the Board of Directors. Management is in the process of renegotiating the terms of the loan agreement with the bank and expects that a revised loan agreement will be in place in the second quarter of 2012.

Scenario 2:

Breaches of loan covenants – classification of loan as “non-current” at reporting date

FRS 107(19)

Some of the Company’s loan agreements are subject to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Company did not fulfil the debt/equity ratio as required in the contract for a credit line of \$[], of which the Company has currently drawn an amount of \$[].

Due to this breach of the covenant clause, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount of \$[].

However, prior to the end of the financial year, the bank has agreed to a period of grace ending in first quarter of 2012.

FRS 1(75)

FRS 1(135)(e)

The outstanding balance is presented as a non-current liability as at 31 December 2011.

Note: If the breach occurs **after** the end of the reporting period, then the liability would still be shown as non-current, unless the breach was so serious that the financial statements could not be presented on a going concern basis.

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 6: Convertible foreign currency bonds – classify as liability in entirety

Extracts of significant accounting policies:

Convertible foreign currency bonds

On issuance of convertible foreign currency bonds, the proceeds are allocated between the embedded equity conversion option and the liability component. The embedded option is recognised at its fair value. The liability component is recognised as the difference between total proceeds and the fair value of the equity conversion option.

FRS 39 AG28

The equity conversion option is subsequently carried at its fair value with fair value changes recognised in profit or loss. The liability component is carried at amortised cost until the liability is extinguished on conversion or redemption.

When an equity conversion option is exercised, the carrying amounts of the liability component and the equity conversion option are derecognised with a corresponding recognition of share capital.

Extracts of notes to the financial statements:

Other losses - net

| | <u>Group</u> | |
|---|--------------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Fair value gains on equity conversion option in convertible bonds | 4,083 | – |

FRS 107(20)(a)(v)

Finance expenses

| | <u>Group</u> | |
|---------------------|--------------|--------|
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Interest expense: | | |
| - Convertible bonds | 16,966 | – |

FRS 107(20)(b)

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 6: Convertible foreign currency bonds – classify as liability in entirety (continued)

Extracts of notes to the financial statements (continued):

Convertible foreign currency bonds

FRS 107(17,34)

On 1 October 2011, the Group issued zero coupon convertible bonds at a nominal value of US\$500 million (equivalent to \$720 million) due on 4 October 2015. The bonds will be redeemed on 4 October 2015 at their nominal value or can be converted into shares of the Company (the “conversion option”) at the holder’s option at a conversion price of US\$2.20 per share at any time on and after 14 November 2011 up to the close of business on 24 September 2015 if not called for redemption. On full conversion, up to 320,000,000 conversion shares (“Conversion Ratio”) are expected to be issued and allotted to the holders of the bonds.

The convertible bonds recognised in the balance sheet are analysed as follows:

| | \$'000 |
|---|----------------|
| Face value of convertible bonds issued, net of transaction costs | 700,000 |
| Embedded equity conversion option | (4,083) |
| Liability component at initial recognition | <u>695,917</u> |
| Accumulated amortisation of interest expense | 16,966 |
| Currency translation differences | (5,898) |
| Liability component at end of financial year | <u>706,985</u> |

The fair value of the liability component of the convertible bonds at 31 December 2011 is \$706,985,000. The fair value is calculated using cash flows discounted at a borrowing rate of 6.48%.

FRS 107(25,27)

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 7: Properties under development sale

Extracts of significant accounting policies:

Development properties

Development properties refer to properties developed for sale.

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

FRS 2(9)

FRS 2(6)

Sales of development properties under construction in respect of sale and purchase agreements are entered into prior to completion of construction are recognised when the properties are delivered to the buyers, except for in cases where the control and risk and rewards of the property are transferred to the buyers as construction progresses.

INT FRS 115(20)(a)

For sales of development properties of the Group that are within the scope¹ as described in paragraph 2 of the Accompanying Note to INT FRS 115 - *Agreements for the Construction of Real Estate*, the Group recognises revenue for sales of such development properties by reference to the stage of completion of the properties.

INT FRS 115(20)(b)

The stage of completion is measured by reference to the physical surveys of construction work completed. When it is probable that the total development costs will exceed the total revenue, the expected loss is recognised as expense immediately.

INT FRS 115(20)(c)

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

FRS 11(43)

FRS 11(44)

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 7: Properties under development sale (continued)

Extracts of notes to the financial statements (continued):

Development properties

| | 2011 \$'000 | 2010 \$'000 | 2009 \$'000 | |
|-------------------------------|----------------|----------------|----------------|--------------|
| Completed properties | 1,144 | 1,300 | 1,255 | DV |
| Properties under construction | 304 | 206 | 405 | DV |
| | <u>1,448</u> | <u>1,506</u> | <u>1,660</u> | FRS 2(36)(b) |

Sale and purchase agreements on certain properties under construction have been signed. Deposits and progress billings amounting to \$[xx] on these agreements are presented within “trade and other liabilities”.

Development properties under construction where revenue is recognised as construction progresses:

| | 2011 \$'000 | 2010 \$'000 | 2009 \$'000 | |
|---|----------------|----------------|----------------|------------------------|
| Aggregate costs incurred and profits recognised (less losses recognised) on sold development properties in progress | 4,466 | 2,222 | 3,145 | INT FRS 115 (21)(a,b) |
| Less: Progress billings | (3,400) | (1,212) | (2,456) | |
| Unbilled revenue included in trade and the receivables | <u>1,066</u> | <u>1,010</u> | <u>689</u> | |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 7: Properties under development sale (continued)

Extracts of significant accounting policies:

Note 2.1 Basis of Preparation

Interpretation 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.

FRS 8 (28)

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 as disclosed below:

INT FRS 115 Agreements for the Construction of Real Estate, with an Accompanying Note (“AN”) to be read in conjunction with INT FRS 115. (Effective for annual periods beginning on or after 1 January 2011)

INT FRS 115 applies retrospectively for annual periods beginning on or after 1 January 2011. Prior to the adoption of INT FRS 115, revenue from sales of properties held-for-sale (both Singapore and overseas properties) was recognised using the percentage-of-completion method.

FRS 8 (28)(c)

Upon adoption of INT FRS 115, revenue from sale of Singapore residential properties that are within the scope¹ as described in paragraph 2 of the AN continues to be recognised on a percentage-of-completion method. However, for the sale of overseas properties, revenue is recognised only upon completion of construction.

The effects on adoption are as follows:

FRS 8 (28)(f,g)

FRS 8 (28)(f)(ii)

| | Consolidated balance sheet | | |
|----------------------------------|----------------------------|---------------------|--------------|
| | At 31 December | At 31 December | At 1 January |
| | 2011 | 2010 | 2010 |
| | | Increase/(Decrease) | |
| | \$'000 | \$'000 | \$'000 |
| Development properties | 30,000 | 44,118 | 36,000 |
| Trade and other payables-current | 26,000 | 45,790 | 28,000 |
| Retained profits | (900) | (1,276) | (1,000) |
| Non-controlling interests | (100) | (396) | (200) |

| | Consolidated income statement | |
|---|-------------------------------|----------|
| | for year ended 31 December | |
| | Increase/(Decrease) | |
| | 2011 | 2010 |
| | \$'000 | \$'000 |
| Revenue | (45,790) | (32,000) |
| Cost of sales | (44,118) | (31,040) |
| Non-controlling interests | (396) | (200) |
| Profit attributable to: | | |
| Equity holders of the Company | 1,472 | 874 |
| Non-controlling interests | 200 | 86 |
| Basic and diluted earnings per share for the financial year ended (cents per share) | (0.10) | (0.07) |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Guidance notes

Scope of the Accompanying Note to INT FRS 115 *Agreements for the Construction of Real Estate*

1. The scope deals with the accounting treatment for revenue and associated expenses by housing developers who develop more than 4 units of private residential properties in Singapore for sale prior to completion¹ of the properties. These developers are regulated under the Singapore Housing Developers (Control and Licensing) Act (Chapter 130) (the “Act”) and use the standard form of the sale and purchase agreement (the “SPA”) prescribed in Form D for landed properties and Form E for strata-titled properties of the schedule to the Housing Developers Rules, with each unit sold intended to comprise a lot in a land title plan for landed properties and strata title plan for strata-titled properties. Such a unit sold is referred to as “uncompleted property unit”. Such sales are referred to as “standard residential property sales”.

Comparatives

2. An entity shall apply INT FRS 115 Interpretation for annual periods beginning on or after 1 January 2011 and changes in accounting policy of the company upon adoption of this interpretation shall be accounted for retrospectively in accordance with FRS 8.

FRS 1(39)

Accordingly, the entity shall present, as a minimum, three statements of financial position (or balance sheets), two of each of the other statements, and related notes. an entity presents statements of financial position (or balance sheets) as at:

- (a) the end of the current period,
- (b) the end of the previous period (which is the same as the beginning of the current period), and
- (c) the beginning of the earliest comparative period.

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 8: Third balance sheet disclosure under FRS 1R on reclassification

When an entity reclassifies items in its financial statements, three balance sheets should be shown as follows:

| | Note | 2011 \$'000 | 2010 (restated) \$'000 | 2009 (restated) \$'000 | FRS 1(54,77) SGX 1207(5)(a) SGX 1207(5)(b) |
|---|------|----------------|------------------------------|------------------------------|--|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 13 | 22,010 | 36,212 | 31,221 | FRS 1(60) |
| Financial assets, at fair value through profit or loss | 14 | 10,785 | 8,326 | 9,571 | FRS 1(54)(f) |
| Derivative financial instruments | 15 | 1,069 | 452 | 410 | FRS 1(54)(d) |
| Financial assets, available-for-sale | 16 | 1,950 | 646 | 1,125 | FRS 1(54)(d) |
| Trade and other receivables | 17 | 19,510 | 16,399 | 17,305 | FRS 1(54)(h) |
| Inventories | 18 | 24,258 | 17,094 | 19,250 | FRS 1(54)(g) |
| Construction contract work-in-progress | 19 | 262 | 147 | 347 | |
| | | 79,844 | 79,276 | 79,229 | |
| Disposal group classified as held-for-sale | 11 | 3,333 | – | – | FRS 105(38) |
| | | 83,177 | 79,276 | 79,229 | FRS 1(54)(j) |
| Non-current assets | | | | | |
| Derivative financial instruments | 15 | 395 | 112 | 215 | FRS 1(60) |
| Financial assets, available-for-sale | 16 | 15,298 | 12,291 | 11,958 | FRS 1(54)(d) |
| Trade and other receivables | 20 | 3,322 | 1,990 | 2,512 | FRS 1(54)(h) |
| Investments in associated companies | 23 | 8,208 | 8,569 | 8,133 | FRS 1(54)(e) |
| Investment properties | 26 | 5,550 | 5,455 | 3,365 | FRS 1(54)(b) |
| Financial assets, held-to-maturity | 27 | 2,122 | 1,593 | – | FRS 1(54)(d) |
| Property, plant and equipment | 28 | 153,611 | 97,890 | 104,328 | FRS 1(54)(a) |
| Intangible assets | 29 | 24,930 | 19,600 | 19,966 | FRS 1(54)(c) |
| Deferred income tax assets | 36 | 3,319 | 3,228 | 1,995 | FRS 1(54)(o) |
| | | 216,755 | 150,728 | 152,472 | |
| Total assets | | 299,932 | 230,004 | 231,701 | |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 30 | 16,441 | 10,556 | 5,767 | FRS 1(60) |
| Current income tax liabilities | 10 | 2,942 | 3,833 | 9,595 | FRS 1(54)(k) |
| Derivative financial instruments | 15 | 440 | 240 | 300 | FRS 1(54)(n) |
| Borrowings | 31 | 9,524 | 15,670 | 12,131 | FRS 1(54)(m) |
| Provisions | 35 | 2,126 | 2,300 | 1,129 | FRS 1(54)(l) |
| | | 31,473 | 32,599 | 28,922 | |
| Liabilities directly associated with disposal group classified as held-for-sale | 11 | 220 | – | – | FRS 105(38) |
| | | 31,693 | 32,599 | 28,922 | FRS 1(54)(p) |
| Non-current liabilities | | | | | |
| Trade and other payables | 30 | 350 | – | 91 | FRS 1(60) |
| Derivative financial instruments | 15 | 135 | 44 | 2,320 | FRS 1(54)(k) |
| Borrowings | 31 | 118,300 | 89,214 | 100,145 | FRS 1(54)(m) |
| Deferred income tax liabilities | 36 | 11,646 | 8,406 | 5,040 | FRS 1(54)(o) |
| Provisions | 35 | 1,655 | 1,585 | 1,250 | FRS 1(54)(l) |
| | | 132,086 | 99,249 | 108,846 | |
| Total liabilities | | 163,779 | 131,848 | 137,768 | |
| NET ASSETS | | 136,153 | 98,156 | 93,933 | |
| EQUITY | | | | | |
| Capital and reserves attributable to equity holders of the Company | | | | | |
| Share capital | 37 | 41,495 | 32,024 | 32,024 | FRS 1(78)(e) |
| Treasury shares | 37 | (1,418) | (900) | – | FRS 1(78)(e) |
| Other reserves | 38 | 9,628 | 6,419 | 5,046 | FRS 1(78)(e) |
| Retained profits | 39 | 78,200 | 58,852 | 55,589 | FRS 1(78)(e) |
| | | 127,905 | 96,395 | 92,659 | FRS 1(54)(r) |
| Non-controlling interests | | 8,248 | 1,761 | 1,274 | FRS 1(54)(q) |
| Total equity | | 136,153 | 98,156 | 93,933 | |

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 8: Third balance sheet disclosure under FRS 1R on reclassification (continued)

Extracts of notes to accounts¹:

The following reclassifications have been made to the prior year's financial statements so as to remove offsets in the balance sheet.

The restatement is as below:

| GROUP | 2011 \$'000 | 2010 (restated) \$'000 | 2009 (restated) \$'000 |
|--|----------------|------------------------------|------------------------------|
| ASSETS | | | |
| Trade and other receivables | (428) | (345) | (499) |
| LIABILITIES | | | |
| Trade and other payables - Advances from Customers | 428 | 345 | 499 |

Guidance notes

Presentation of a third balance sheet and related notes

- FRS 1 (revised) *Presentation of Financial Statements* requires an additional balance sheet to be presented as at the beginning of the earliest comparative period following a change in accounting policy, the correction of an error, or the reclassification of items in the financial statements. Paragraph 39 refers to the presentation of "related notes" when a third balance sheet is presented. The standard provides no further guidance in terms of how the above requirement should be interpreted.

FRS1(10)(f)

FRS 1(39)

In our view, in such cases, it is sufficient for an entity to present only the notes to that additional statement that have been impacted by the restatement or reclassification, provided that the entity states in its financial statements that the other notes have not been impacted by the restatement or reclassification.

The materiality of an omission is measured against its ability to influence the economic decisions of the users of the financial statement and the omission of the unaffected notes to the additional statement is in our view, not material nor relevant for an understanding of the financial statements and hence is permitted.

Accordingly for the above illustration, we would need to show the balances at the beginning of the earliest comparative period for the following notes to accounts only: Trade and other receivables, Trade and other payables and Financial risk management.

Additional Illustrative Disclosures

Appendix 1 – Areas not relevant to PwC Holdings Ltd Group

Example 9: Related party disclosures under FRS 24 (Revised) (for annual periods beginning on or after 1 January 2011)

Extracts of notes to accounts¹:

Government S, indirectly, owns 75% of Company's outstanding shares. In addition to the related party information and transactions disclosed elsewhere in the financial statements, the Company's significant transactions with Government S and other entities controlled, jointly controlled or significantly influenced by Government S include approximately 90% of power supply is derived from [.....], a government controlled entity.

In addition, during the year ended December 2011 Government S has sold a piece of land to the Company for a total consideration of 400,000, settled partly in cash and partly on credit terms.

Loan equivalent to 60% of its purchase price is repayable in quarterly instalments over the next two years. Interest is charged on the loan at a rate of 2.15%, which is comparable to that charged on Company's bank loans.

Guidance notes

Related party disclosures

1. The disclosure is relevant for transactions among government related entities and the Government.

Additional Illustrative Disclosures

Appendix 2 – Critical accounting estimates, assumptions and judgements not relevant or material to PwC Holdings Ltd Group

Critical accounting estimates, assumptions and judgements

The following critical accounting estimates, assumptions and judgements may be applicable, among many other possible areas not presented in PwC Holdings Limited Group's financial statements.

a) Useful lives of electrical component division's plant and equipment

FRS 1 (122,125)

The costs of plant and equipment for the manufacture of electronic component parts are depreciated on a straight-line basis over the machineries' useful lives. Management estimates the useful lives to be between 5 to 7 years, based on the estimated useful lives for similar machineries in the same industry and the projected life-cycles for its products. These estimates can change significantly as a result of expected usage or abandonment, technological innovations and competitors' actions, leading to potential changes in future depreciation charges, impairment losses and/or write-offs.

If the actual useful lives of the technology division plant and equipment differ by 10% from management's estimates, the carrying amount of the plant and equipment will be an estimated \$1,000,000 higher or \$970,000 lower.

(b) Post-employment pension obligations

The present value of the post-employment pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and have a tenure approximating the tenure of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

If the discount rate used differs by 1% from management's estimates, the carrying amount of pension obligations will be an estimated \$425,000 lower or \$450,000 higher.

Additional Illustrative Disclosures

Appendix 2 – Critical accounting estimates, assumptions and judgements not relevant or material to PwC Holdings Ltd Group

Critical accounting estimates, assumptions and judgements (continued)

(c) Warranty claims

FRS 1 (122,125))

The Group gives two-year warranties for its personal computer products. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

If claims costs differ by 10% from management's estimates, the warranty provisions will be an estimated \$2,000,000 higher or \$1,875,000 lower.

(d) Property, plant and equipment

The Group's business is capital intensive and the annual depreciation of property, plant and equipment forms a significant component of total costs charged to profit or loss. The Group reviews the residual values and useful lives of property, plant and equipment at each reporting date in accordance with the accounting policy in Note 2.5. The estimation of the residual values and useful lives involves significant judgment. The net book value of property, plant and equipment at 31 December 2011 is \$153.6 million and the annual depreciation charge for the financial year ended 31 December 2011 is \$17.7 million.

If the actual useful lives of the property, plant and equipment are longer or shorter than the management's estimate by one year on average, the Group's annual depreciation charge will be reduced by \$4.0 million and increased by \$6.0 million respectively.

(e) Share-based compensation

The Group's equity-settled, share-based compensation plan is significant and the amount of the employee services received in exchange for the grant of options recognised as an expense forms a significant component of total expenses charged to profit or loss. At each balance sheet date, the Group reviews and 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.

If the actual number of shares under options that are expected to become exercisable on the vesting date differs by 10% from management's estimates, total profit will be approximately \$70,000 higher or lower.

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

| (A) FINANCIAL REPORTING STANDARDS | | | | | |
|--|---|---|---|---|--|
| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | | International Financial Reporting Standards | | Overall comparison |
| 2009 | FRS 1 (revised) | Presentation of Financial Statements | IAS 1 (revised) | Presentation of Financial Statements | FRS 1(revised) is consistent with IAS 1 in all material aspects. |
| 2009 | FRS 2 (revised) | Inventories | IAS 2 (revised) | Inventories | FRS 2 is consistent with IAS 2 in all material aspects. |
| 2009 | FRS 7 (revised) | Cash Flow Statements | IAS 7 (revised) | Statement of Cash Flows | FRS 7 is consistent with IAS 7 (effective from 1994) in all material aspects. |
| 2009 | FRS 8 (revised) | Accounting Policies, Changes in Accounting Estimates and Errors | IAS 8 (revised) | Accounting Policies, Changes in Accounting Estimates and Errors | FRS 8 is consistent with IAS 8 in all material aspects. |
| 2007 | FRS 10 | Events after the Balance Sheet Date | IAS 10 | Events after the Reporting Period | FRS 10 is consistent with IAS 10 in all material aspects. |
| 2009 | FRS 11 (revised) | Construction Contracts | IAS 11 (revised) | Construction Contracts | FRS 11 is consistent with IAS 11 (effective from 1995) in all material aspects. |
| 2007 | FRS 12 | Income Taxes | IAS 12 | Income Taxes | <p>FRS 12 is consistent with IAS 12 (effective from 1998) in all material aspects, except for accounting for unremitted foreign income.</p> <p>Under Recommended Accounting Practice (RAP) 8 issued by the Institute of Certified Public Accountants of Singapore (ICPAS), no deferred tax is accounted for temporary difference arising from foreign income not yet remitted to Singapore if:</p> <ul style="list-style-type: none"> (a) the entity is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. <p>Under IAS 12, deferred tax is required to be accounted for temporary difference arising from such unremitted foreign income.</p> |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

| (A) FINANCIAL REPORTING STANDARDS | | | | | |
|--|---|-------------------------------------|---|-------------------------------------|--|
| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | | International Financial Reporting Standards | | Overall comparison |
| 2009 | FRS 16 (revised) | Property, Plant and Equipment (PPE) | IAS 16 (revised) | Property, Plant and Equipment (PPE) | <p>FRS 16 is consistent with IAS 16 in all material aspects, except that FRS 16 gives the following exemption:</p> <p>“For an enterprise which had: revalued its PPE before 1 January 1984 (in accordance with the prevailing accounting standard at the time); or performed any one-off revaluation on its PPE between 1 January 1984 and 31 December 1996 (both dates inclusive), there will be no need for the enterprise to revalue its assets in accordance with paragraph 29 of FRS 16”.</p> <p>“One-off revaluation” means any instance where an item of PPE was revalued only once between 1 January 1984 and 31 December 1996 (both dates inclusive).</p> <p>Where an item of PPE has been revalued more than once during this period, the company should:</p> <ul style="list-style-type: none"> (a) explain why the particular item of PPE should be exempted; and (b) obtain the auditor’s concurrence of the explanation. <p>IAS 16 does not include the above exemption.</p> |
| 2007 | FRS 17 | Leases | IAS 17 | Leases | <p>FRS 17 is consistent with IAS 17 in all material aspects.</p> <p>The amendment to IAS 17, effective for annual periods beginning from 1 January 2010, has removed the requirement for land title to pass before land leases can qualify as finance leases. As a result FRS 17 is now consistent with IAS 17 in all material aspects. The amendment has been adopted locally, which also classifies that the indefinite economic life of land will still be an important consideration in the operating/finance lease classification.</p> |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

| (A) FINANCIAL REPORTING STANDARDS | | | | | |
|--|---|--|---|--|---|
| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | | International Financial Reporting Standards | | Overall comparison |
| 2005 | FRS 18 | Revenue | IAS 18 | Revenue | <p>FRS 18 is consistent with IAS 18 (effective from 1995) in all material aspects except for revenue recognition of pre-sold uncompleted properties.</p> <p>INT FRS 115 prescribes the accounting treatment for sale of uncompleted properties. Please refer to section B below on Interpretations for details.</p> <p>Under IFRS, such revenue is generally recognised after the properties are completed and handed over to the buyers.</p> |
| 2009 | FRS 19 (revised) | Employee Benefits | IAS 19 (revised) | Employee Benefits | FRS 19 is consistent with IAS 19 in all material aspects. |
| | | | IAS 19 (revised) | Employee Benefits | IAS 19 (revised), effective for annual periods beginning on or after 1 January 2013 has not been adopted locally. |
| 2005 | FRS 20 | Accounting for Government Grants and Disclosure of Government Assistance | IAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | FRS 20 is consistent with IAS 20 (effective from 1984) in all material aspects. |
| 2006 | FRS 21 | The Effects of Changes in Foreign Exchange Rates | IAS 21 | The Effects of Changes in Foreign Exchange Rates | FRS 21 is consistent with IAS 21 in all material aspects. |
| 2009 | FRS 23 (revised) | Borrowing Costs | IAS 23 (revised) | Borrowing Costs | FRS 23 is consistent with IAS 23 in all material aspects. |
| 2011 | FRS 24 (revised) | Related Party Disclosures | IAS 24 (revised) | Related Party Disclosures | FRS 24 is consistent with IAS 24 in all material aspects. |
| 2005 | FRS 26 | Accounting and Reporting by Retirement Benefit Plans | IAS 26 | Accounting and Reporting by Retirement Benefit Plans | FRS 26 is consistent with IAS 26 (effective from 1990) in all material aspects |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

| (A) FINANCIAL REPORTING STANDARDS | | | | | |
|--|---|--|---|--|---|
| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | | International Financial Reporting Standards | | Overall comparison |
| 1 Jul 2009 | FRS 27 (revised) | Consolidated and Separate Financial Statements | IAS 27 (revised) | Consolidated and Separate Financial Statements | FRS 27 is consistent with IAS 27 in all material aspects, except in one of the conditions for exemption from consolidation. FRS 27 requires the ultimate holding company or any intermediate parent of a company that seeks exemption from consolidation to produce consolidated financial statements that are available for public use. These consolidated financial statements need not comply with any specific accounting framework. |
| | | | IAS 27 (revised) | Consolidated and Separate Financial Statements | IAS 27 requires the ultimate holding company or any intermediate parent of a company that seeks exemption from consolidation to produce consolidated financial statements that are available for public use and comply with IFRS. IAS 27 (revised), effective for annual periods beginning on or after 1 January 2013 has not been adopted locally. |
| 2005 | FRS 28 | Investments in Associates | IAS 28 | Investments in Associates | FRS 28 is consistent with IAS 28 in all material aspects, except in one of the conditions for exemption from equity accounting. The dissimilarity is as identified in FRS 27. |
| | | | IAS 28 (revised) | Investments in Associates | IAS 28 (revised), effective for annual periods beginning on or after 1 January 2013 has not been adopted locally. |
| 2005 | FRS 29 | Financial Reporting in Hyperinflationary Economies | IAS 29 | Financial Reporting in Hyperinflationary Economies | FRS 29 is consistent with IAS 29 (effective from 1990) in all material aspects. |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

| (A) FINANCIAL REPORTING STANDARDS | | | | | |
|--|---|--|---|--|---|
| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | | International Financial Reporting Standards | | Overall comparison |
| 2005 | FRS 31 | Interests in Joint Ventures | IAS 31 | Interests in Joint Ventures | FRS 31 is consistent with IAS 31 in all material aspects, except in one of the conditions for exemption from proportionate consolidation or equity accounting. The dissimilarity is as identified in FRS 27. Note that IAS 31 is being replaced by IFRS 11, which is effective for annual periods beginning on or after 1 January 2013 and has not been adopted locally. |
| 2007 – for listed companies 2008 – for non-listed companies | FRS 32 | Financial Instruments: Presentation | IAS 32 | Financial Instruments: Presentation | FRS 32 is consistent with IAS 32 (effective from 2007) in all material aspects. |
| 2009 | FRS 33 (revised) | Earnings per Share | IAS 33 (revised) | Earnings per Share | FRS 33 is consistent with IAS 33 in all material aspects. |
| 2009 | FRS 34 (revised) | Interim Financial Reporting | IAS 34 (revised) | Interim Financial Reporting | FRS 34 is consistent with IAS 34 in all material aspects. |
| 2009 | FRS 36 (revised) | Impairment of Assets | IAS 36 (revised) | Impairment of Assets | FRS 36 is consistent with IAS 36 in all material aspects. |
| 2006 | FRS 37 | Provisions, Contingent Liabilities and Contingent Assets | IAS 37 | Provisions, Contingent Liabilities and Contingent Assets | FRS 37 is consistent with IAS 37 (effective from 1999) in all material aspects. |
| 2009 | FRS 38 (revised) | Intangible Assets | IAS 38 (revised) | Intangible Assets | FRS 38 is consistent with IAS 38 in all material aspects. |
| 2007 | FRS 39 | Financial Instruments: Recognition and Measurement | IAS 39 | Financial Instruments: Recognition and Measurement | FRS 39 is consistent with IAS 39 in all material aspects except for the effect of difference in transition dates. |
| 2007 | FRS 40 | Investment property | IAS 40 | Investment Property | FRS 40 is consistent with IAS 40 (effective from 2005) in all material aspects. |
| 2005 | FRS 41 | Agriculture | IAS 41 | Agriculture | FRS 41 is consistent with IAS 41 in all material aspects. |
| 1 Jul 2009 | FRS 101 (revised) | First-time Adoption of Financial Reporting Standards | IFRS 1 (revised) | First-time Adoption of International Financial Reporting Standards | FRS 101 is consistent with IFRS 1 in all material aspects. |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

| (A) FINANCIAL REPORTING STANDARDS | | | | | |
|--|---|--|---|--|--|
| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | | International Financial Reporting Standards | | Overall comparison |
| 2005 – for listed companies | FRS 102 | Share-based Payments | IFRS 2 | Share-based Payments | FRS 102 is consistent with IFRS 2 in all material aspects, except for their effective dates for non-listed companies. For non-listed companies, FRS 102 is effective for annual periods beginning on or after 1 January 2006, whilst IFRS 2 is effective for annual periods beginning on or after 1 January 2005. |
| 2006 – for other companies | | | | | |
| | | | | | <p>Additionally, IFRS 2 will apply to:</p> <p>(a) share-based payment transactions that were granted on or after 7 November 2002 and had not yet vested by 1 January 2005; and</p> <p>(b) share-based payment transactions made before 7 November 2002, which were subsequently modified.</p> <p>FRS 102 replaces “7 November 2002” with “22 November 2002”.</p> |
| 1 Jul 2009 | FRS 103 (revised) | Business Combinations | IFRS 3 (revised) | Business Combinations | FRS 103 is consistent with IFRS 3 in all material aspects. |
| 2007 | FRS 104 | Insurance Contracts | IFRS 4 | Insurance Contracts | FRS 104 is consistent with IFRS 4 in all material aspects. |
| 2009 | FRS 105 (revised) | Non-current Assets Held-for-Sale and Discontinued Operations | IFRS 5 (revised) | Non-current Assets Held-for-Sale and Discontinued Operations | FRS 105 is consistent with IFRS 5 in all material aspects. |
| 2009 | FRS 106 (revised) | Exploration for and Evaluation of Mineral Resources | IFRS 6 (revised) | Exploration for and Evaluation of Mineral Resources | FRS 106 is consistent with IFRS 6 in all material aspects. |
| 2007 – for listed companies | FRS 107 | Financial Instruments: Disclosures | IFRS 7 | Financial Instruments: Disclosures | FRS 107 is consistent with IFRS 7 in all material aspects, except for their effective dates for non-listed companies. |
| 2008 – for non-listed companies | | | | | For non-listed companies, FRS 107 is effective for annual periods beginning on or after 1 January 2008, whilst IFRS 7 is effective for annual periods beginning on or after 1 January 2007. |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

| (A) FINANCIAL REPORTING STANDARDS | | | | | |
|--|---|---|---|---|---|
| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | | International Financial Reporting Standards | | Overall comparison |
| 2009 | FRS 108 | Operating Segments | IFRS 8 | Operating Segments | FRS 108 is consistent with IFRS 8 in all material aspects. |
| – | – | – | IFRS 9 | Financial Instruments | IFRS 9, effective for annual periods beginning on or after 1 January 2013 has not been adapted locally. |
| – | – | – | IFRS 10 | Consolidated Financial Statements | IFRS 10, effective for annual periods beginning on or after 1 January 2013 has not been adopted locally. |
| – | – | – | IFRS 11 | Joint Arrangements | IFRS 11, effective for annual periods beginning on or after 1 January 2013 has not been adopted locally. |
| – | – | – | IFRS 12 | Disclosure of Interests in Other Entities | IFRS 12, effective for annual periods beginning on or after 1 January 2013 has not been adopted locally. |
| – | – | – | IFRS 13 | Fair Value Measurement | IFRS 13, effective for annual periods beginning on or after 1 January 2013 has not been adopted locally. |
| 2005 | INT FRS 7 | Introduction of the Euro | SIC 7 | Introduction of the Euro | INT FRS 7 is consistent with SIC 7 (effective from 1998) in all material aspects. |
| 2005 | INT FRS 10 | Government Assistance – No Specific Relation to Operating Activities | SIC 10 | Government Assistance – No Specific Relation to Operating Activities | INT FRS 10 is consistent with SIC 10 (effective from 1998) in all material aspects. |
| 2005 | INT FRS 12 | Consolidation – Special Purpose Entities | SIC 12 | Consolidation – Special Purpose Entities | INT FRS 12 is consistent with SIC 12 (effective from 1999) in all material aspects. Note that SIC 12 has been incorporated into IFRS 10, which is effective for annual periods beginning on or after 1 January 2013 and has not been adopted locally. |
| 2005 | INT FRS 13 | Jointly Controlled Entities – Non-Monetary Contributions by Venturers | SIC 13 | Jointly Controlled Entities – Non-Monetary Contributions by Venturers | INT FRS 13 is consistent with SIC 13 (effective from 1999) in all material aspects. Note that SIC 13 has been incorporated into IAS 28 (revised), which is effective for annual periods beginning on or after 1 January 2013 and has not been adopted locally. |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

| (B) INTERPRETATIONS | | | | | |
|--|---|---|---|---|--|
| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | | International Financial Reporting Standards | | Overall comparison |
| 2005 | INT FRS 15 | Operating Leases - Incentives | SIC 15 | Operating Leases - Incentives | INT FRS 15 is consistent with SIC 15 (effective from 1999) in all material aspects. |
| 2005 | INT FRS 21 | Income Taxes – Recovery of Revalued Non-Depreciable Assets | SIC 21 | Income Taxes – Recovery of Revalued Non-Depreciable Assets | INT FRS 21 is consistent with SIC 21 (effective from 2000) in all material aspects. Note that INT FRS 21 has been incorporated into FRS 12, which is effective for annual periods beginning on or after 1 January 2012. |
| 2005 | INT FRS 25 | Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders | SIC 25 | Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders | INT FRS 25 is consistent with SIC 25 (effective from 2000) in all material aspects. |
| 2005 | INT FRS 27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | SIC 27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | INT FRS 27 is consistent with SIC 27 (effective from 2001) in all material aspects. |
| 2008 | INT FRS 29 | Service Concession Arrangements: Disclosures | SIC 29 | Disclosure – Service Concession Arrangements | INT FRS 29 is consistent with SIC 29 (effective from 2001) in all material aspects. |
| 2005 | INT FRS 31 | Revenue – Barter Transactions Involving Advertising Services | SIC 31 | Revenue – Barter Transactions Involving Advertising Services | INT FRS 31 is consistent with SIC 31 (effective from 2001) in all material aspects. |
| 2005 | INT FRS 32 | Intangible Assets – Web Site Costs | SIC 32 | Intangible Assets – Web Site Costs | INT FRS 32 is consistent with SIC 32 (effective from 2002) in all material aspects. |
| 2009 | INT FRS 101 (revised) | Changes in Existing Decommissioning, Restoration and Similar Liabilities | IFRIC 1 (revised) | Changes in Existing Decommissioning, Restoration and Similar Liabilities | INT FRS 101 is consistent with IFRIC 1 (effective from 2004) in all material aspects. |
| – | – | – | IFRIC 2 | Members' Shares in Co-operative Entities and Similar Instruments | IFRIC 2, effective for annual periods beginning on or after 1 January 2005 has not been adopted locally. |
| 2008 | INT FRS 104 | Determining whether an Arrangement contains a Lease | IFRIC 4 | Determining whether an Arrangement contains a Lease | INT FRS 104 is consistent with IFRIC 4 in all material aspects. |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

| (B) INTERPRETATIONS | | | | | |
|--|---|---|---|---|---|
| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | | International Financial Reporting Standards | | Overall comparison |
| 2007 | INT FRS 105 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | IFRIC 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | INT FRS 105 is consistent with IFRIC 5 in all material aspects. |
| 1 Dec 2005 | INT FRS 106 | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment | IFRIC 6 | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment | INT FRS 106 is consistent with IFRIC 6 in all material aspects. |
| 1 Mar 2006 | INT FRS 107 | Applying the Restatement Approach under FRS 29 | IFRIC 7 | Applying the Restatement Approach under IAS 29 | INT FRS 107 is consistent with IFRIC 7 in all material aspects. |
| 1 Jun 2006 | INT FRS 109 | Reassessment of Embedded Derivatives | IFRIC 9 | Reassessment of Embedded Derivatives | INT FRS 109 is consistent with IFRIC 9 in all material aspects. |
| 1 Nov 2006 | INT FRS 110 | Interim Financial Reporting and Impairment | IFRIC 10 | Interim Financial Reporting and Impairment | INT FRS 110 is consistent with IFRIC 10 in all material aspects. |
| 2009 | INT FRS 112 (revised) | Service Concession Arrangements | IFRIC 12 (revised) | Service Concession Arrangements | INT FRS 112 is consistent with IFRIC 12 in all material aspects. |
| 1 Jul 2008 | INT FRS 113 | Customer Loyalty Programmes | IFRIC 13 | Customer Loyalty Programmes | INT FRS 113 is consistent with IFRIC 13 in all material aspects. |
| 2008 | INT FRS 114 | FRS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | IFRIC 14 | IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | INT FRS 114 is consistent with IFRIC 14 in all material aspects. |
| 2011 | INT FRS 115 | Agreements for the Construction of Real Estate | IFRIC 15 | Agreements for the Construction of Real Estate | INT FRS 115 is consistent with IFRIC 15 in all material aspects. Based on IFRIC 15, an agreement for the construction of real estate meets the definition of a construction contract, and percentage-of-completion accounting can be used, only when the buyer is able to: |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

(B) INTERPRETATIONS

| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | International Financial Reporting Standards | Overall comparison |
|--|---|---|--|
| | | | <ul style="list-style-type: none"> specify the major structural elements of the design of the real estate before construction begins; and/or specify major structural changes once construction is in progress (whether or not it exercises that ability). <p>If the agreement is not a construction contract, it may be an agreement for the rendering of services if the entity is not required to acquire and supply the construction materials required for the construction. In this situation, the entity may still be able to use percentage-of-completion accounting.</p> <p>If the agreement is neither a construction contract nor a service contract, it is a contract to supply goods for which IAS 18 should be applied. In this case, the percentage-of-completion accounting can only be applied if the entity transfers to the buyer control and the significant risks and rewards of ownership of the work-in-progress in its current state as construction progresses.</p> <p>The Accompanying Note to INT FRS 115 states that the standard residential property sales in Singapore that meet the criteria set out in FRS 18.14 would require such sales to be accounted for on a percentage-of-completion method.</p> <p>However, in some situations specific to the circumstances of a development project as described in paragraph 32, there might be uncertainties that would require the completion of construction method to be applied, consistently with the principles set out in FRS 18 for the treatment of revenue when such uncertainties exist.</p> |

Differences between Singapore Financial Reporting Standards and International Financial Reporting Standards

As at 31 August 2011

(B) INTERPRETATIONS

| Effective from 1 January; unless otherwise specified | Singapore Financial Reporting Standards | International Financial Reporting Standards | Overall comparison |
|--|---|---|--|
| 1 Oct 2008 | INT FRS 116 | Hedges of a Net Investment in a Foreign Operation | INT FRS 116 is consistent with IFRIC 16 in all material aspects. |
| 1 July 2009 | INT FRS 117 | Distributions of Non-cash Assets to Owners | INT FRS 117 is consistent with IFRIC 17 in all material aspects. |
| 1 July 2009 | INT FRS 118 | Transfers of Assets from Customers | INT FRS 118 is consistent with IFRIC 18 in all material aspects. |
| 1 July 2010 | INT FRS 119 | Extinguishing Financial Liabilities with Equity Instruments | INT FRS 119 is consistent with IFRIC 19 in all material aspects. |

A Practical Guide to New Singapore Financial Reporting Standards for 2011

September 2011



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Introduction

This publication is a practical guide to the new or amended FRS standards and interpretations that come into effect in 2011. Significant changes to FRS are due to be published in 2011, but there are a relatively small number of changes that come into effect for 2011 year ends: two new interpretations, and a number of amendments to existing standards and interpretations.

The new interpretation INT FRS 115 *Agreements for the construction of real estate* clarifies the contracts that will need to be accounted for in accordance with FRS 18 *Revenue*, and those that will need to apply FRS 11 *Construction contracts*. This interpretation may have significant earnings implications, as the revenue recognition between the two standards is quite different and will have wider implications than just for the real estate industry.

Another interpretation which comes into effect in 2011 – INT FRS 119 *Extinguishing financial liabilities with equity instruments*, clarifies the accounting when an entity renegotiates the terms of its debt when the liability is extinguished by the debtor issuing its own equity.

One amendment that has an effective date in 2010 will impact 2011 year ends – amendments to FRS 32 *Financial instruments: Presentation*, on classification of rights issues. Amendments that apply from 1 January 2011 are an amendment to FRS 24 *Related party disclosures*, and an amendment to INT FRS 114 *The limit on a defined benefit asset, minimum funding requirements and their interaction*.

A number of other specific amendments to standards and the International Accounting Standards Board's (IASB's) 2010 annual improvements project, which have been adopted by the Accounting Standards Council (ASC) in Singapore, have affected many of the standards. Some of the changes address inconsistency in terminology between the standards; others will impact certain entities and hence will need careful consideration.

A number of standards have been issued by the IASB but have not yet been adopted by the ASC as at the date of this publication. These include IFRS 9 *Financial Instruments*, five standards on consolidation and joint arrangements – IFRS 10 *Consolidated financial statements*, IFRS 11 *Joint arrangements*, IFRS 12 *Disclosures of interests in other entities*, IAS 27 *Separate financial statements* and IAS 28 *Investments in associates and joint ventures* and IFRS 13 *Fair value measurement*. They apply to 2013 year ends but can be adopted with immediate effect for IFRS preparers.

IFRS 9 deals with the classification and measurement of financial instruments and is the first phase of the IASB's project to replace FRS 39 *Financial instruments: Recognition and measurement*.

IFRS 10 introduces a revised definition of control and significant new guidance to determine which entities should be consolidated. It replaces IAS 27, which now only deals with separate financial statements.

IFRS 11 replaces IAS 31 and will have significant impact on how entities classify and account for their joint arrangements. IAS 28 has also been amended to now include all the guidance on the equity method of accounting for associates or joint ventures.

Disclosures for interests in subsidiaries, joint arrangements and associates are considered in IFRS 12.

IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures.

Abbreviations used

| | |
|---------|--|
| FRS | Singapore Financial Reporting Standards |
| INT FRS | Interpretations of Financial Reporting Standards |
| IFRS | International Financial Reporting Standards |
| IFRIC | IFRS Interpretations Committee |
| ASC | Accounting Standards Council |
| IASB | International Accounting Standards Board |

1. New and amended standards

Classification of rights issues
– FRS 32 amendment

Disclosures – transfers of financial assets
– FRS 107 amendment

Deferred tax: Recovery of underlying assets
– FRS 12 amendment

Related party disclosures
– FRS 24 amendment

Severe hyperinflation and removal of fixed dates
for first-time adopters
– FRS 101 amendment

Limited exemption from comparative FRS 107
disclosures for first-time adopters
– FRS 101 amendment

Classification of rights issues – FRS 32 amendment

Classification of rights issues – an amendment to FRS 32 rights issues was published on 18 November 2009. The amendment recognises that the previous requirement to classify foreign-currency-denominated rights issued to all existing shareholders on a pro rata basis as derivative liabilities is not consistent with the substance of the transaction, which represents a transaction with owners acting in their capacity as such. The amendment therefore creates an exception to the “fixed for fixed” rule in FRS 32 and requires rights issues within the scope of the amendment to be classified as equity.

Effective date

Annual periods beginning on or after 1 January 2011. Earlier adoption is permitted either for the entire standard or for the reduced disclosures for government-related entities.

What is a rights issue?

A rights issue is used as a means of capital-raising whereby an entity issues a right, option or warrant to all existing shareholders of a class of equity on a pro rata basis to acquire a fixed number of additional shares at a fixed strike price. The strike price is usually set below current market share price, and shareholders are economically compelled to exercise the rights so that their interest in the entity is not diluted. Rights issues are not used for speculative purposes and are required by laws or regulations in many jurisdictions when raising capital.

Why new guidance now?

Rights issues have become popular in the current environment due to liquidity constraints on the markets. Entities listed in different jurisdictions are normally required by laws or regulations to issue rights denominated in respective local currencies. Unfortunately, a fixed strike price in other than the entity's functional currency violates “fixed for fixed” equity classification criterion in FRS 32 and hence results in the instrument being classified as a derivative liability measured at fair value through profit or loss. Given that rights issues are usually relatively large transactions, this would have a substantial effect on entities' financial statements.

What does the amendment require?

The IASB recognised that classifying foreign-currency-denominated rights issued to all existing shareholders on a pro rata basis as derivative liabilities was not consistent with the substance of the transaction, which represents a transaction with owners acting in their capacity as such. The amendment therefore created an exception to the “fixed for fixed” rule in IAS 32 (in which FRS 32 is based on) and required rights issues within the scope of the amendment to be classified as equity.

What is the scope of the new guidance?

The scope is narrow and applies only to pro rata rights issues to all existing shareholders in a class. It does not extend to long-dated foreign currency rights issues or foreign-currency-denominated convertible bonds. For these instruments, the option to acquire the issuer's equity will continue to be accounted for as a derivative liability, with fair value changes recorded in profit or loss.

How will this change current practice?

Rights issues are now required to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity. Unlike derivative liabilities, equity instruments are not subsequently re-measured at fair value through profit or loss. The accounting is therefore less complex, and there is less volatility in profit or loss.

Disclosures – transfers of financial assets – FRS 107 amendment

An amendment to FRS 107 which requires greater disclosure of transferred financial assets was issued on 23 February 2011.

Effective date

Annual periods beginning on or after 1 July 2011. Comparative information is not needed in the first year of adoption. Earlier application is permitted.

How extensive are the new requirements?

The new disclosure requirements apply to transferred financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party – for example, on the legal sale of a bond. Alternatively, a transfer takes place when the entity retains the contractual rights of the financial asset but assumes a contractual obligation to pay the cash flows on to another party, as is often the case when factoring trade receivables.

The amendment has different requirements for the following two categories:

- transferred assets that are not derecognised in their entirety (for example, in a typical sale and repurchase (“repo”) of a security for a fixed price, or on the transfer of assets to securitisation vehicles that are consolidated by the transferor); and
- certain transferred assets that are derecognised in their entirety (for example, factoring of trade receivables with no recourse).

The amendment requires only minor additional disclosure for the first category; however, the new disclosure requirements for the second category could be extensive.

What are the disclosure requirements for the transferred assets that are not derecognised?

The required disclosures for these financial assets add to those already in FRS 107. There are only two new requirements:

- a description of the nature of the relationship between the transferred assets and the associated liabilities should be provided, including restrictions arising from the transfer on the reporting entity’s use of the transferred assets; and
- when the counterparty to the associated liabilities has recourse only to the transferred assets, a schedule should be given that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position.

What are the disclosure requirements for the transferred assets that are derecognised in their entirety?

The new disclosure requirements for derecognised financial assets apply only where the entity has a “continuing involvement”, which may not occur frequently in practice. This is where, as part of the transfer, the entity retains any of the contractual rights or obligations inherent in the derecognised financial asset or obtains any new contractual rights or obligations relating

to the transferred financial asset. The new disclosures are mainly about the entity's continuing involvement. They include disclosure of:

- the carrying amount and fair value of the continuing involvement;
- the maximum exposure to loss from the continuing involvement;
- any future cash outflows to repurchase the derecognised assets (for example, the strike price in an option agreement) and a maturity analysis of those cash outflows;
- a description of the nature and purpose of the continuing involvement and the risk the entity remains exposed to;
- the gain or loss at date of derecognition;
- the income and expense recognised from the continuing involvement (current and cumulative); and
- whether transfer activity is unevenly distributed in the period.

Deferred tax: Recovery of underlying assets – FRS 12 amendment

The ASC amended FRS 12 *Income taxes* to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value following a similar amendment by the IASB in IAS 12.

Effective date

Annual periods beginning on or after 1 January 2012. Early adoption is permitted.

Why was this amendment needed?

The current principle in IAS 12 and FRS 12 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way that management expects to recover or settle the carrying amount of the entity's assets or liabilities. For example, management may expect to recover an asset by using it, by selling it or by a combination of use and sale. Management's expectations can affect the measurement of deferred taxes when different tax rates or tax bases apply to the profits generated from using and selling the asset.

The IASB believes that entities holding investment properties that are measured at fair value sometimes find it difficult or subjective to estimate how much of the carrying amount will be recovered through rental income (that is, through use) and how much will be recovered through sale, particularly when there is no specific plan for disposal at a particular time.

Key provisions

The IASB has added another exception to the principles in IAS 12: the rebuttable presumption.

Why was this amendment needed?

The current principle in IAS 12 and FRS 12 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way that management expects to recover or settle the carrying amount of the entity's assets or liabilities. For example, management may expect to recover an asset by using it, by selling it or by a combination of use and sale. Management's expectations can affect the measurement of deferred taxes when different tax rates or tax bases apply to the profits generated from using and selling the asset.

The IASB believes that entities holding investment properties that are measured at fair value sometimes find it difficult or subjective to estimate how much of the carrying amount will be recovered through rental income (that is, through use) and how much will be recovered through sale, particularly when there is no specific plan for disposal at a particular time.

Key provisions

The IASB has added another exception to the principles in IAS 12: the rebuttable presumption that investment property measured at fair value is recovered entirely by sale. The rebuttable presumption also applies to the deferred tax liabilities or assets that arise from investment properties acquired in a business combination, if the acquirer subsequently uses the fair value model to measure those investment properties.

The presumption of recovery entirely by sale is rebutted if the investment property is depreciable (e.g. buildings, and land held under a lease) and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The presumption cannot be rebutted for freehold land that is an investment property, because such land can only be recovered through sale.

What are the transition implications?

The amendment is effective for annual periods beginning on or after 1 January 2012. Management can elect to early adopt. Entities should apply the amendment retrospectively in accordance with FRS 8 *Accounting policies, changes in accounting estimates and errors*.

Which entities are affected?

All entities holding investment properties measured at fair value in territories where there is no capital gains tax or where the capital gains rate is different from the income tax rate (e.g. Singapore, New Zealand, Hong Kong and South Africa) will be significantly affected. The amendment is likely to reduce significantly the deferred tax assets and liabilities recognised by these entities. It will also mean that, in jurisdictions where there is no capital gains tax, there will often be no tax impact of changes in the fair value of investment properties. It might be necessary for management to reconsider recoverability of an entity's deferred tax assets because of the changes in the recognition of deferred tax liabilities on investment properties, and to consider the impact of the amendment on previous business combinations.

Related party disclosures – FRS 24 amendment

The revised FRS 24 *Related party transactions* was issued by the ASC on 22 January 2010. It removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. It also clarifies and simplifies the definition of a related party.

Effective date

Annual periods beginning on or after 1 January 2011. Earlier adoption is permitted either for the entire standard or for the reduced disclosures for government-related entities.

The previous version of FRS 24 did not contain any specific guidance for government-related entities. They were therefore required to disclose transactions with the government and other government-related entities. This requirement was onerous in territories with pervasive government control; it placed a significant burden on entities to identify related party transactions and collect the information required to make the disclosures. For example, a government-controlled railway was theoretically required to disclose details of its transactions with the post office. This information was not necessarily useful to users of the financial statements and was costly and time-consuming to collect.

The financial crisis widened the range of entities subject to related party disclosure requirements. The financial support provided by governments to financial institutions in many countries means that the government now controls or significantly influences some of those entities. A government-controlled bank, for example, would be required to disclose details of its transactions, deposits and commitments with all other government-controlled banks and with the central bank.

What is the definition of a government-related entity?

Government-related entities are now defined as entities that are controlled, jointly controlled or significantly influenced by a government.

What disclosures are government-related entities required to make?

The amendment introduces an exemption from the disclosure requirements of FRS 24 for transactions between government-related entities and the government, and all other government-related entities. Those disclosures are replaced with a requirement to disclose:

- the name of the government and the nature of the relationship;
- the nature and amount of any individually-significant transactions; and
- a qualitative or quantitative indication of the extent of any collectively-significant transactions.

What is the impact of the change in disclosure requirements?

This is a significant relaxation of the disclosure requirements and should be of substantial benefit to government-related entities. The complexity and volume of the disclosures in the financial statements and the costs of record-keeping will be reduced. The new disclosures will provide more meaningful information about the nature of an entity's relationship with the government.

Why has the definition of a related party changed?

The previous definition of a related party was complicated and contained a number of inconsistencies. These inconsistencies meant, for example, that there were situations in which only one party to a transaction was required to make related party disclosures. The definition has been amended to remove such inconsistencies and to make it simpler and easier to apply.

What is the impact of the amended definition?

While the new definition will make the definition of a related party easier to apply, some entities will be required to make additional disclosures.

The entities that are most likely to be affected are those that are part of a group that includes both subsidiaries and associates, and entities with shareholders that are involved with other entities. For example, a subsidiary is now required to disclose transactions with an associate of its parent. Similarly, disclosure is required of transactions between two entities where both entities are joint ventures (or one is an associate and the other is a joint venture) of a third entity. In addition, an entity that is controlled by an individual that is part of the key management personnel of another entity is now required to disclose transactions with that second entity.

What next steps should management consider?

Management of government-related entities should consider whether they wish to adopt the amendment early. Early adoption is likely to be attractive for many entities, but management intending to adopt early should also consider the revised disclosure requirements and put in place procedures to collect the required information.

Management of all entities should consider the revised definition to determine whether any additional disclosures will be required and put in place procedures to collect that information.

Severe hyperinflation and removal of fixed dates for first-time adopters – FRS 101 amendment

The ASC made two amendments to FRS 101 *First-time adoption of FRS* on 17 March 2011:

- An exemption for severe hyperinflation; and
- Removal of fixed dates

Effective date

Annual periods beginning on or after 1 July 2011. Earlier adoption is permitted.

Severe hyperinflation

What is the issue?

The amendment creates an additional exemption when an entity that has been subjected to severe hyperinflation resumes presenting, or presents for the first time, financial statements in accordance with FRSs. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening FRS statement of financial position.

An entity might be unable to prepare financial statements in accordance with FRSs for a period of time because it could not comply with FRS 29 *Financial reporting in hyperinflationary economies* due to severe hyperinflation. The exemption applies where the entity is able to begin reporting in accordance with FRS.

What are the key provisions?

The amendment states that the currency of a hyperinflationary economy is subject to severe hyperinflation when:

- a reliable general price index is not available to all entities with transactions and balances in the currency; and
- exchangeability between the currency and a relatively stable foreign currency does not exist.

An entity's functional currency ceases to be subjected to severe hyperinflation on the functional currency normalisation date, which occurs:

- when one or both of the characteristics of severe hyperinflation no longer exist; or
- when the first-time adopter changes its functional currency to a currency that is not subject to severe hyperinflation.

The exemption applies to entities that were subjected to severe hyperinflation and are adopting FRS for the first time or have previously applied FRS.

When an entity's date of transition to FRS is on or after the functional currency normalisation date, it may elect to measure assets and liabilities acquired before that date at fair value and use that fair value as deemed cost in the opening FRS statement of financial position.

FRS 101 defines the date of transition as the beginning of the earliest period for which an entity presents comparative information under FRS in its first FRS financial statements. When the functional currency normalisation date falls within the comparative period, that period may be less than 12 months, provided that a complete set of financial statements is provided for that shorter period.

The entity cannot comply with FRS due to the severe hyperinflation in periods before the date of transition to FRS, so the comparative information for this period cannot be prepared in accordance with FRS. The entity should therefore consider whether disclosure of non-FRS comparative information and historical summaries in accordance with FRS 101 would provide useful information to the users of the financial statements.

If an entity applies the new exemption to comply with FRS, it should explain the transition to FRS, and why and how the entity ceased to have a functional currency subjected to severe hyperinflation.

Which entities are affected?

The amendment is expected to have a limited impact, as it is only available to entities whose functional currency was subjected to severe hyperinflation. The Zimbabwean economy has been identified as an economy that was subjected to severe hyperinflation until early 2009; the amendment is unlikely to apply in other territories at the time of going to print.

The amendment would not change or allow any additional FRS 101 exemptions for a reporting entity that has control, joint control or significant influence over an entity subjected to severe hyperinflation, except to the extent that the reporting entity is also a first-time adopter.

What do affected entities need to do?

Management of first-time adopters that have interests in hyperinflationary economies should consider:

- their functional currency normalisation date;
- their proposed date of transition to FRS;
- whether the comparative period will be presented for a period shorter than 12 months; and
- the assets and liabilities they wish to measure at fair value on transition to FRS.

Removal of fixed dates requirement

What is the issue?

The ASC amended FRS 101 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities.

The first change requires first-time adopters to apply the derecognition requirements of FRS prospectively from the date of transition, rather than from 1 January 2004.

The second amendment relates to financial assets or liabilities at fair value on initial recognition where the fair value is established through valuation techniques in the absence of an active market.

This means that a first-time adopter does not need to determine the fair value of financial assets and liabilities for periods prior to the date of transition. FRS 39 has also been amended to reflect these changes.

Which entities are affected?

Entities that had derecognised financial assets or liabilities before the date of transition to FRS will need to apply the derecognition guidance from the date of transition, as it is a mandatory exception. The second change will only be relevant for entities that elect to use the exemption for fair value established by valuation techniques.

Limited exemption from comparative FRS 107 disclosures for first-time adopters – FRS 101 amendment

The ASC has issued an amendment to FRS 101 *First-time adoption of FRS* provides first-time adopters with the same transition relief that existing FRS preparers received in the March 2009 amendment to FRS 107 *Financial instruments: Disclosures*.

Effective date

Annual periods beginning on or after 1 July 2010. Earlier adoption is permitted. Early adoption is required for a first-time adopter that has a first reporting period that begins earlier than 1 July 2011 in order to benefit from the disclosure relief is permitted.

What triggered this amendment?

Existing FRS preparers were granted relief from presenting comparative information for the new disclosures required by the April 2009 amendments to FRS 107 *Financial instruments: Disclosures*. The relief was provided because the amendments to FRS 107 were issued after the comparative periods had ended, and the use of hindsight would have been required. The ASC therefore permitted entities to exclude comparative disclosures in the first year of application. Certain first-time adopters (e.g. those with a first reporting period beginning on or after 1 January 2009) would otherwise be required to make the comparative period disclosures, as first-time adopters do not use the transition provisions in other FRSs.

The ASC has therefore issued an amendment to FRS 101 to provide first-time adopters with the same transition provisions (and thereby the same relief) as included in the amendment to FRS 107. It made a consequential amendment to FRS 107 to remove the wording, “In the first year of application”, and to replace it with date-specific relief for comparative information. Any comparative periods that end before 31 December 2009 are exempted from the disclosures required by the amendments to FRS 107. The relief applies to disclosures related to both the statement of comprehensive income and the statement of financial position.

Which entities are affected?

A first-time adopter may use the relief offered under the amendment to the extent its first FRS financial statements present comparative periods that end before 31 December 2009. This includes any comparative annual periods that end before 31 December 2009 and any year-end comparative statements of financial position as at a date before 31 December 2009. This includes the opening statement of financial position as at the date of transition. Any comparative interim periods (full financial statements and not FRS 34 condensed) that fell within the first annual period for which the amended FRS 107 disclosures were effective are not exempted.

What action do first-time adopters need to take?

First-time adopters should consider the comparative periods that are being presented in their first FRS financial statements and determine whether they should take advantage of the disclosure relief offered by this amendment.

2. New and amended interpretations

Pre-payments of a minimum funding requirement
– INT FRS 114 amendment

Agreements for the construction of real estate with
an accompanying note
– INT FRS 115

Extinguishing financial liabilities with equity
instruments
– INT FRS 119

Pre-payments of a minimum funding requirement – INT FRS 114 amendment

The amendment to INT FRS 114, FRS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction* was published on 22 January 2010. It removes an unintended consequence of INT FRS 114 relating to voluntary pension pre-payments when there is a minimum funding requirement.

Effective date

Annual periods beginning on or after 1 January 2011; it will apply from the beginning of the earliest comparative period presented. Earlier adoption is permitted.

How does the amendment differ from previous guidance?

Some companies that are subjected to a minimum funding requirement may elect to pre-pay their pension contributions. The pre-paid contributions are recovered through lower minimum funding requirements in future years. An unintended consequence of the interpretation, prior to this amendment, was that INT FRS 114 could prevent the recognition of an asset for any surplus arising from such voluntary pre-payment of minimum funding contributions in respect of future service. The interpretation has been amended to require an asset to be recognised in these circumstances.

Which entities are affected?

It will have a limited impact, as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan and choose to prepay those contributions.

Those affected are companies that:

- have a defined benefit pension plan - that is subject to a minimum funding requirement; and
- have prepaid (or expect to prepay) the minimum funding requirement in respect of future employee service, leading to a pension surplus.

What do affected entities need to do?

Such entities should reconsider their accounting in the light of the revised guidance to determine whether an asset for the pre-paid contributions should be recognised. They should assess the impact as early as possible to determine whether the amendment should be adopted before the effective date.

Agreements for the construction of real estate with an accompanying note – INT FRS 115

INT FRS 115 *Agreements for the construction of real estate with an accompanying note* was published on 26 August 2010. It clarifies the accounting for property developers that recognise revenue and associated costs of pre-completed properties using either the percentage-of-completion method or the completion of construction method as allowed under Recommended Accounting Practice (RAP) 11 *Pre-Completion Contracts for the Sale of Development Property*.

Effective date

Annual periods beginning on or after 1 January 2011. Early adoption is permitted.

What are the key changes under INT FRS 115?

INT FRS 115 specifies that:

- When a buyer can specify the design of the real estate, the contract is accounted for as a construction contract under FRS 11 *Construction Contracts* using the percentage-of-completion method. Otherwise it is accounted for under FRS 18 *Revenue*.
- Contracts accounted for under FRS 18 are regarded as agreements for the rendering of services if the developer is not required to acquire and supply construction materials. Such contracts are accounted for using the percentage-of-completion method if the relevant criteria in FRS 18 are met.
- Other contracts are regarded as contracts for the sale of goods. The percentage-of-completion method applies to such contracts only where the developer transfers both control and significant risks and rewards of ownership of the work-in-progress as construction progresses. Otherwise, revenue is recognised only at the point where control and significant risks and rewards transfer to the buyer, typically, when the property is delivered to the buyer.

Together with the issuance of INT FRS 115, ASC also issued an Accompanying Note (the “Note”). The Note discusses ASC’s considerations on whether the sale of uncompleted residential properties “off-plan” in Singapore under the Singapore Housing Developers (Control and Licensing) Act (Chapter 130) (the “Act”) that use the standard form of the sale and purchase agreement, satisfy the continuous transfer of control and risks and rewards criteria in INT FRS 115.

ASC concluded that such sales satisfy those criteria and accordingly, should be accounted for using the percentage-of-completion method. However, there could be uncertainties in certain specific situations that preclude the transfer of risks and rewards to the buyers as construction progresses.

It should be noted that the Note only addresses those specified contracts under the Act. The application of INT FRS 115 on other contracts (e.g. selling of properties under the Deferred Payment Scheme, commercial properties in Singapore or other properties outside of Singapore) may result in recognising revenue and associated costs only when the completed units are delivered to the buyers.

Which entities are affected?

All entities that undertake the construction and sale of real estate either directly or through subcontractors will be affected.

What do affected entities need to do?

The interpretation shall be applied retrospectively for annual periods beginning on or after 1 January 2011 with early application permitted. RAP 11 will cease to be effective from annual periods beginning on 1 January 2011.

Extinguishing financial liabilities with equity instruments – INT FRS 119

INT FRS 119 *Extinguishing financial liabilities with equity instruments*, was published on 22 January 2010. INT FRS 119 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a ‘debt for equity swap’).

Effective date

Annual periods beginning on or after 1 July 2010. Early adoption is permitted. The interpretation should be applied retrospectively from the beginning of the earliest comparative period presented, as adoption in earlier periods would result only in a reclassification of amounts within equity.

Why the new guidance now?

Many entities were compelled to renegotiate their debt as it came due, in the current challenging economic climate. Renegotiations would commonly lead either to modification of debt or settlement of the liability by way of issuing equity instruments to the lender. FRS did not address accounting for such debt for equity swaps before INT FRS 119, and there was diversity in practice. Some recognised the equity instrument at the carrying amount of the financial liability and did not recognise any gain or loss on settlement in profit or loss. Others recognised the equity instruments at their fair value and recorded any difference between that amount and the carrying amount of the financial liability in profit or loss. The financial crisis exacerbated the issue.

What is the scope of the new guidance?

INT FRS 119 addresses the accounting by an entity that renegotiates the terms of a financial liability and issues shares to the creditor to extinguish all or part of the financial liability. It does not address the accounting by the creditor; and it does not apply to situations where the liability may be extinguished with equity instruments in accordance with the original terms of the instrument (e.g. convertible bonds). The interpretation is further restricted to exclude transactions where the creditor is also a shareholder acting in its capacity as such, or transactions under common control where the transaction in substance represents an equity distribution by, or contribution to, the entity.

What does the interpretation address?

INT FRS 119 addresses the following issues:

- Are equity instruments issued to extinguish a financial liability “consideration paid”?
- How should an entity initially measure equity instruments issued to extinguish a financial liability?
- How should an entity account for any difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued?

What does the interpretation require?

INTFRS 119 considers that equity instruments issued to settle a liability represent 'consideration paid'. It therefore requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity's own equity instruments. This is consistent with the general approach to derecognition of financial liabilities established by FRS 39. The amount of the gain or loss recognised in profit or loss is determined as the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments cannot be reliably measured, the fair value of the existing financial liability is used to measure the gain or loss and to record issued equity instruments.

How will this change current practice?

Entities will no longer be permitted to reclassify the carrying value of the existing financial liability into equity (with no gain or loss being recognised in profit or loss). The amount of the gain or loss should be separately disclosed in the statement of comprehensive income or in the notes.

3. Improvements to FRSs 2010

The table below identifies the more significant changes to the standards arising from the Improvements to FRSs 2010 issued by ASC on 7 October 2010 and the implications for management.

Effective date

See final column in table below.

| Standard/ interpretation | Amendment | Practical implications | Effective date |
|---|--|---|---|
| Amendment to FRS 1 <i>Presentation of financial statements</i> | <ul style="list-style-type: none"> The impact of a previous amendment to FRS 1 by FRS 27 was to make explicit the requirement to present each item of other comprehensive income in the statement of changes in equity, along with the profit or loss and transactions with owners. The amendment removes the requirement for each item of other comprehensive income to be presented separately in the statement of changes in equity. | <ul style="list-style-type: none"> The amendment clarifies that, for each component of equity, an entity may present the breakdown of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. | Annual periods beginning on or after 1 January 2011. Early adoption is permitted. |
| Transition requirements for amendments arising as a result of FRS 27 <i>Consolidated and separate financial statements</i> | <ul style="list-style-type: none"> Additional guidance has been included within FRS 21, which clarifies the accounting for disposals or partial disposals of a foreign operation. Guidance in the FRS 28 and FRS 31 amendment clarifies disposal accounting for associates and jointly controlled entities in accordance with FRS 39. | <ul style="list-style-type: none"> The amendment is based on the changes in FRS 27. It states that loss of control over a subsidiary, the loss of significant influence over an associate and loss of joint control over a jointly controlled entity are similar events and should therefore be accounted for similarly. Such an event should be recognised and measured at fair value and any gain or loss is recognised in the profit or loss. | Annual periods beginning on or after 1 July 2010. |
| Amendment to FRS 34 <i>Interim financial reporting</i> | <ul style="list-style-type: none"> The amendment emphasises the existing disclosure principles in FRS 34 and adds further guidance to illustrate how to apply these principles. | <ul style="list-style-type: none"> Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurements (if significant), and the need to update relevant information from the most recent annual report. | Annual periods beginning on or after 1 January 2011. Early adoption is permitted. |

| Standard/ interpretation | Amendment | Practical implications | Effective date |
|---|---|--|---|
| Amendment to FRS 101 <i>First-time adoption</i> – interim information | <ul style="list-style-type: none"> A first-time adopter that changes its accounting policies or its use of FRS 101 exemptions after publishing a set of FRS 34 interim financial information should explain those changes and include the effects of such changes in its opening reconciliations within the first annual FRS financial statements. | <ul style="list-style-type: none"> FRS 101 explains that the disclosures required when accounting policies are changed under FRS 8 <i>Accounting policies, changes in accounting estimates and errors</i> are not required for a first-time adopter. The amendment clarifies that FRS 8 also does not apply to changes made to accounting policies during the period of an entity's first FRS financial statements. This includes a change in policy between publication statements. However, management should explain the change in its first FRS financial statements, as required by of FRS 101 para 23, and provide updated reconciliations. This disclosure requirement also applies where an entity changes its use of the exemptions in FRS 101 between the interim report and its first FRS financial statements. | Annual periods beginning on or after 1 January 2011. Early adoption is permitted. |
| Amendment to FRS 101 <i>First-time adoption</i> – deemed cost | <ul style="list-style-type: none"> The exemption to use a “deemed cost” arising from a revaluation triggered by an event such as a privatisation that occurred at or before the date of transition to FRS is extended to revaluations that occur during the period. | <ul style="list-style-type: none"> Local regulations might require entities to remeasure assets and liabilities to fair value on the event of a privatisation or an IPO and to recognise those revalued amounts as deemed cost under local GAAP. If such an event occurs after the date of transition to FRS, FRS 101 did not previously permit these revalued amounts to be recognised as deemed cost on transition to FRS. The amendment to FRS 101 permits entities to use these revalued amounts as deemed cost at the date the event occurs provided that this revaluation occurs during the period covered by the first FRS financial statements. At the date of transition, the assets and liabilities are either measured at deemed cost using either fair value or revaluation as described above, or in accordance with other applicable FRSS. | <p>Annual periods beginning on or after 1 January 2011. Early adoption is permitted.</p> <p>The amendment is also available to entities that applied FRS 101 prior to the effective date where such a re-measurement event occurred during their first FRS reporting period. The amendment allows these entities to apply this amendment retrospectively in the first annual period after the amendment is effective.</p> |

| Standard/ interpretation | Amendment | Practical implications | Effective date |
|---|--|---|---|
| Amendment to FRS 101 <i>First-time adoption</i> - rate regulation | <ul style="list-style-type: none"> Entities subject to rate regulation are permitted to use previous Generally Accepted Accounting Principles (“GAAP”) carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under FRS 36 at the date of transition. | <ul style="list-style-type: none"> This amendment provides relief to entities that carry items of PPE and intangible assets that are or were previously used in rate-regulated activities. The amendment states that operations are considered to be subject to rate regulation if “they provide goods or services to customers at prices (i.e. rates) established by an authorised body empowered to establish rates that bind the customers and that are designed to recover the specific costs the entity incurs in providing the regulated goods or services and to earn a specified return”. The specified return does not need to be of a fixed amount and may be stated as a minimum amount or a range. The amendment permits a first-time adopter to use the previous GAAP carrying amount of such rate-regulated assets as deemed cost at the date of transition to FRS even if those assets do not qualify for recognition under FRS. The amendment also permits entities to choose the assets to which the exemption is applied. This is similar to the choice available in the deemed cost exemption for other types of assets. | Annual periods beginning on or after 1 January 2011. Early adoption is permitted. |
| Amendment to FRS 103 <i>Business combinations</i> – contingent consideration | <ul style="list-style-type: none"> Contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of FRS 103 (2008) are accounted for in accordance with the guidance in the previous version of FRS 103 (as issued in 2004). | <ul style="list-style-type: none"> This amendment clarifies that the guidance in FRS 39, FRS 32 and FRS 107 will not apply to contingent consideration arising from business combinations with an effective date prior to the application of the revised version of FRS 103. | Annual periods beginning on or after 1 July 2010. Early adoption is permitted. |
| Amendment to FRS 103 <i>Business combinations</i> – non-controlling interests | <ul style="list-style-type: none"> The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree’s net assets applies only to instruments that represent ‘present’ ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless FRS requires another measurement basis. Removal of reference to transactions between segments as being hedgeable transactions in individual or separate financial statements. | <ul style="list-style-type: none"> This amendment will reduce diversity in practice and provides clearer guidance on how to measure non-controlling interests. | Annual periods beginning on or after 1 July 2010. Early adoption is permitted. |

| Standard/ interpretation | Amendment | Practical implications | Effective date |
|--|--|--|---|
| Amendment to FRS 103 <i>Business combinations</i> – share-based payments | <ul style="list-style-type: none"> The application guidance in FRS 103 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards. | <ul style="list-style-type: none"> FRS 103 did not previously provide guidance for situations where the acquirer does not have an obligation to replace an award but replaces an existing acquiree award that would otherwise have continued unchanged after the acquisition. This amendment addresses this gap in the previous guidance. The amendment made to FRS 103 results in the accounting for these awards being the same as for awards that the acquirer is obliged to replace. | Annual periods beginning on or after 1 July 2010. Early adoption is permitted. |
| Amendment to FRS 107 <i>Financial instruments: disclosures</i> | <ul style="list-style-type: none"> Amendments to FRS 107 <i>Financial instruments: Disclosures – Nature and extent of risks arising from financial instruments</i>. These are minor amendments to the disclosure of financial assets, including the financial effect of collateral held as security. | <ul style="list-style-type: none"> No significant impact. | Annual periods beginning on or after 1 January 2011. Early adoption is permitted. |
| Amendment to INT FRS 113 <i>Customer loyalty programmes</i> | | <ul style="list-style-type: none"> The amendment clarifies the meaning of the term “fair value” in the context of measuring award credits under customer loyalty programmes. When the fair value of award credits is measured on the basis of the value of the awards (that is, goods or services) for which they could be redeemed, the fair value of the award credits should take account of expected forfeitures as well as the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale. | Annual periods beginning on or after 1 January 2011. Early adoption is permitted. |

4. Standards issued globally but not yet issued in Singapore

Classification and measurement of financial assets
– IFRS 9

Classification and measurement of financial liabilities
– IFRS 9

Consolidated financial statements
– IFRS 10

Joint arrangements
– IFRS 11

Disclosure of interests in other entities
– IFRS 12

Fair value measurement
– IFRS 13

Presentation of financial statements
– Amendment to IAS 1

Financial instruments – IFRS 9

IFRS 9 *Financial instruments* replaces IAS 39 *Financial instruments: Recognition and Measurement*. It generally applies retrospectively, with some exceptions. Comparative information is not required to be adjusted retrospectively for adoptions before 2012. If an entity early adopts IFRS 9, it will not be required to early adopt subsequent stages in the IAS 39 replacement project – that is, impairment and hedging. This is to facilitate early adoption of IFRS 9. However, if an entity chooses to early adopt any of the subsequent stages, it will be required to early adopt all preceding stages from the same date.

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted from 12 November 2009 (see detail below).

Classification and measurement of financial assets

How are financial assets to be measured?

IFRS 9 requires all financial assets to be measured at either amortised cost or full fair value. Amortised cost provides decision-useful information for financial assets that are held primarily to collect cash flows that represent the payment of principal and interest. For all other financial assets, including those held for trading, fair value is the most relevant measurement basis.

What determines classification?

IFRS 9 introduces a two-step classification approach. First, an entity considers its business model – that is, whether it holds the financial asset to collect contractual cash flows rather than to sell it prior to maturity to realise fair value changes. If the latter, the instrument is measured at fair value through profit or loss. If the former, an entity further considers the contractual cash flow characteristics of the instrument.

What is a contractual cash flow characteristics test?

A financial asset within a qualifying business model will be eligible for amortised cost accounting if the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time.

Any leverage feature increases the variability of the contractual cash flows with the result that they do not have the economic characteristics of interest. If a contractual cash flow characteristic is not genuine, it does not affect the classification of a financial asset. A cash flow characteristic is not genuine if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

What are common features that would generally pass the cash flow characteristics test?

- Unleveraged linkage to an inflation index in the currency in which the financial asset is denominated.

- Multiple extension options (e.g. a perpetual bond).
- Call and put options if they are not contingent on future events, and the pre-payment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for the early termination of the contract.
- Interest rate caps, floors and collars that effectively switch the interest rate from fixed to variable and vice versa.
- In a variable rate financial asset, a borrower option to choose a rate at each interest rate reset day as long as the rate compensates the lender for the time value of money (e.g. an option to pay three-month LIBOR for a three-month term or one-month LIBOR for a one-month term).

What are common features that would generally fail the cash flow characteristics test?

- Linkage to equity index, borrower's net income or other variables.
- Inverse floating rate.
- Call option at an amount not reflective of outstanding principal and interest.
- Issuer is required or can choose to defer interest payments and additional interest does not accrue on those deferred amounts.
- In a variable rate financial asset, a borrower option to choose a rate at each interest rate reset day such that the rate does not compensate the lender for the time value of money (for example, an option to pay one-month LIBOR for a three-month term and one-month LIBOR is not reset each month).
- A variable rate that is reset periodically but always reflects a five-year maturity in a five-year constant maturity bond (that is, the rate is disconnected with the term of the instrument except at origination).
- An equity conversion option in a debt host (from a holder perspective).

Are reclassifications permitted?

Classification of financial assets is determined on initial recognition. Subsequent reclassification is permitted only in those rare circumstances when there is a change to the business model within which the financial asset is held. In such cases, reclassification of all affected financial assets is required.

IFRS 9 specifies that changes in business model are expected to be very infrequent, should be determined by the entity's senior management as a result of external or internal changes, should be significant to the entity's operations and demonstrable to external parties.

For example, an entity has a portfolio of commercial loans that it holds to sell in the short term. The entity acquires a company that manages commercial loans and has a business model that holds the loans in order to collect the contractual cash flows. The portfolio of commercial loans is no longer for sale, and the portfolio is now managed together with the acquired commercial loans; all are held to collect the contractual cash flows.

Another example of a change in the business model is where an entity decides to shut down a line of service (e.g. a retail mortgage business). The line of service does not accept new business, and the affected portfolio is being actively marketed for sale.

IFRS 9 indicates that changes in intentions with respect to individual instruments, temporary disappearance of a particular market or transfers of instrument between business models do not represent a change in business model.

What does this mean for equity investments?

Equity investments do not demonstrate contractual cash flow characteristics of principal and interest; they are therefore accounted for at fair value. However, IFRS 9 provides an option to designate a non-trading equity investment at fair value through profit or loss or at fair value through other comprehensive income. The designation is available on an instrument-by-instrument basis and only on initial recognition. Once made, the designation is irrevocable.

All realised and unrealised fair value gains and losses follow the initial designation, and there is no recycling of fair value gains and losses recognised in other comprehensive income to profit or loss. Dividends that represent a return on investment from equity investments will continue to be recognised in profit or loss regardless of the designation.

Can an equity investment be measured at cost where no reliable fair value measure is available?

IFRS 9 removes the cost exemption for unquoted equities and derivatives on unquoted equities but stipulates that, in certain circumstances, cost may be an appropriate estimate of fair value. This may be the case where insufficient recent information is available or where there is a wide range of possible fair value measurements. Cost will not be an appropriate estimate of fair value if there are changes in investee circumstances, markets or wider economy, or if there is evidence from external transactions or for investments in quoted equity instruments. To the extent factors exist that indicate cost might not be representative of fair value, the entity should estimate fair value.

What does this mean for hybrid contracts?

IFRS 9 requires financial assets to be classified in their entirety. Hybrid contracts are those instruments that contain a financial or non-financial host and an embedded derivative. Hybrid contracts within the scope of IFRS 9 – that is, hybrid contracts with financial asset hosts – are assessed in their entirety against the two classification criteria. Hybrid contracts outside the scope of IFRS 9 are assessed for bifurcation under IAS 39. In many cases, hybrid contracts may fail the contractual cash flow characteristic test and should therefore be measured at fair value through profit or loss.

Is a fair value option available?

Two of the existing three fair value option criteria currently in IAS 39 become obsolete under IFRS 9, as a fair-value-driven business model requires fair value accounting, and hybrid contracts are classified in their entirety. The remaining fair value option condition in IAS 39 is carried forward to the new standard – that is, management may still designate a financial asset as at fair value through profit or loss on initial recognition if this significantly reduces recognition or measurement inconsistency, commonly referred to as “an accounting mismatch”. The designation at fair value through profit or loss will continue to be irrevocable.

Classification and measurement of financial liabilities

How are financial liabilities to be measured?

Financial liabilities are measured at amortised cost unless they are required to be measured at fair value through profit or loss or an entity has chosen to measure a liability at fair value through profit or loss.

What determines classification?

The classification and measurement of financial liabilities under IFRS 9 remains unchanged from the guidance in IAS 39 except where an entity has chosen to measure a liability at fair value through profit or loss. There continue to be two measurement categories for financial liabilities: fair value and amortised cost. Certain liabilities are required to be at fair value through profit or loss, such as liabilities held for trading and derivatives. Other liabilities are measured at amortised cost unless the entity elects the fair value option; however, if the liability contains embedded derivatives, the embedded derivatives might be required to be separated and measured at fair value through profit or loss.

What is the accounting for financial liabilities that are required to be at fair value through profit and loss?

Financial liabilities that are required to be measured at fair value through profit or loss (as distinct from those that the entity has chosen to measure at fair value through profit or loss) continue to have all fair value movements recognised in profit or loss, with none of the fair value movement recognised in other comprehensive income ("OCI"). This includes all derivatives (such as foreign currency forwards or interest rate swaps), or an entity's own liabilities that are "held for trading". Similarly, financial guarantees and loan commitments that entities choose to measure at fair value through profit or loss will have all fair value movements in profit or loss.

What is the accounting for financial liabilities that an entity chooses to account for at fair value?

IFRS 9 changes the accounting for financial liabilities that an entity chooses to account for at fair value through profit or loss, using the fair value option. For such liabilities, changes in fair value related to changes in own credit risk are presented separately in OCI. However, if presenting the changes in own credit of a financial liability in OCI would create an accounting mismatch in profit or loss, all fair value movements are recognised in profit or loss.

The accounting mismatch must arise due to an economic relationship between the financial liability and a financial asset that results in the liability's credit risk being offset by a change in the fair value of the asset.

The accounting mismatch:

- is required to be determined when the liability is first recognised;
- is not reassessed subsequently; and
- must not be caused solely by the measurement method that an entity uses to determine the changes in a liability's credit risk.

Use of this exemption from the requirement to present movements in the own credit risk of a liability in OCI is expected to be rare.

What are the eligibility criteria for the fair value option?

The eligibility criteria for the fair value option remain the same; they are based on whether:

- the liability is managed on a fair value basis;
- electing fair value will eliminate or reduce an accounting mismatch; or
- the instrument is a hybrid contract (that is, it contains a host contract and an embedded derivative) for which separation of an embedded derivative would be required.

What might be a common reason for electing the fair value option?

A common reason is where entities have embedded derivatives that they do not wish to separate from the host liability. In addition, entities may elect the fair value option for liabilities that give rise to an accounting mismatch with assets that are required to be held at fair value through profit or loss.

Have there been any changes in the accounting for embedded derivatives?

The existing guidance in IAS 39 for embedded derivatives has been retained in this new part of IFRS 9. Entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract – e.g. a structured note where the interest is linked to an equity index. The separated embedded derivative continues to be measured at fair value through profit or loss, and the residual debt host is measured at amortised cost. The accounting for embedded derivatives in non-financial host contracts also remains unchanged.

Is the treatment of derivatives embedded in financial liabilities symmetrical to the treatment of derivatives embedded in financial assets?

No. The existing embedded derivative guidance in IAS 39 is retained in IFRS 9 for financial liabilities and non-financial instruments. This results in some embedded derivatives still being separately accounted for at fair value through profit or loss. However, embedded derivatives are no longer separated from financial assets. Instead, they are part of the contractual terms that are considered in determining whether the entire financial asset meets the contractual cash flow test (that is, the instrument has solely payments of principal and interest) to be measured at amortised cost or whether it should be measured at fair value through profit or loss.

How are financial liabilities at fair value to be measured?

Entities will need to calculate the amount of the fair value movement that relates to the credit risk of the liability. IFRS 7 already requires disclosure of the amount of fair value changes that are attributable to own credit risk for liabilities designated at fair value through profit or loss. The existing guidance on how to calculate own credit risk in IFRS 7 is retained but has been relocated to IFRS 9, and some aspects have been clarified.

How can own credit risk be determined?

This can be determined as either:

- the amount of fair value change not attributable to changes in market risk (e.g. benchmark interest rates) - this is often referred to as the default method; or
- an alternative method that the entity believes more faithfully represents the changes in fair value due to “own credit” (e.g. a method that calculates credit risk based on credit default swap rates).

IFRS 9 clarifies that if the changes in fair value arising from factors other than changes in the liability’s credit risk or changes in observed interest rates (that is, benchmark rates such as LIBOR) are significant, an entity is required to use an alternative method and may not use the default method. For example, changes in the fair value of a liability might arise due to changes in value of a derivative embedded in that liability rather than changes in benchmark interest rates. In that situation, changes in the value of the embedded derivative should be excluded in determining the amount of own credit risk that is presented in OCI.

The expanded guidance in IFRS 9 confirms that the credit risk of a liability with collateral is likely to be different from the credit risk of an equivalent liability without collateral issued by the same entity.

It also clarifies that unit-linking features usually give rise to asset performance risk rather than credit risk – that is, the value of the liability changes due to changes in value of the linked asset(s) and not because of changes in the own credit risk of the liability. This means that changes in the fair value of a unit-linked liability due to changes in the fair value of the linked asset will continue to be recognised in the income statement: they are not regarded as being part of the own credit risk of the liability that is recognised in OCI.

What is the impact of the changes on the presentation of financial liabilities?

Elements of the fair value movement of the liability are presented in different parts of the performance statement; changes in own credit risk are presented in OCI, and all other fair value changes are presented in profit or loss. This means that the amount of the overall fair value movement does not change, but it is presented in separate sections of the statement of comprehensive income.

Amounts in OCI relating to own credit are not recycled to the income statement even when the liability is derecognised and the amounts are realised. However, the standard does allow transfers within equity.

Consolidated Financial Statements - IFRS 10

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

What is the issue?

The IASB has issued the long-awaited IFRS 10 *Consolidated financial statements* as part of the group of five new standards that address the scope of the reporting entity. IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 *Consolidated and separate financial statements* and SIC 12 *Consolidation – special purpose entities*. IAS 27 is renamed *Separate financial statements*; it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged.

The rest of the package includes IFRS 11 *Joint Arrangements*; IFRS 12 *Disclosure of interests in other entities*; and consequential amendments to IAS 28 *Investments in associates*.

IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance that addresses the different ways in which a reporting entity (investor) might control another entity (investee). The changed definition and application guidance is not expected to result in widespread change in the consolidation decisions made by IFRS reporting entities, although some entities could see significant changes.

All entities will need to consider the new guidance. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single entity remains unchanged, as do the mechanics of consolidation.

IFRS 10 excludes guidance specifically for investment companies, as the IASB continues to work on a project on accounting by investment companies for controlled entities.

Revised definition of control

The revised definition of control focuses on the need to have both power and variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both.

The determination of power is based on current facts and circumstances and is continuously assessed. The fact that control is intended to be temporary does not obviate the requirement to consolidate any investee under the control of the investor. Voting rights or contractual rights may be evidence of power, or a combination of the two may give an investor power. Power does not have to be exercised. An investor with more than half the voting rights would meet the power criteria in the absence of restrictions or other circumstances.

The application guidance includes examples illustrating when an investor may have control with less than half of the voting rights. When assessing if it controls the investee, an investor should consider potential voting rights, economic dependency and the size of its shareholding

in comparison to other holdings, together with voting patterns at shareholder meetings. This last consideration will bring the notion of “de facto” firmly within the consolidation standard.

IFRS 10 also includes guidance on participating and protective rights. Participating rights give an investor the ability to direct the activities of an investee that significantly affect the returns. Protective rights (often known as veto rights) will only give an investor the ability to block certain decisions outside the ordinary course of business.

The new standard includes guidance on agent/principal relationships. An investor (the agent) may be engaged to act on behalf of a single party or a group of parties (the “principals”). Certain power is delegated to the agent (e.g. to manage investments). The investor may or may not have control over the pooled investment funds. IFRS 10 includes a number of factors to consider when determining whether the investor has control or is acting as an agent. The revised definition of control and associated guidance replaces not only the definition and guidance in IAS 27 but also the four indicators of control in SIC 12.

Which entities are affected?

IFRS 10 has the potential to affect all reporting entities (investors) that control one or more investees under the revised definition of control. The determination of control and consolidation decisions may not change for many entities. However, the new guidance will need to be understood and considered in the context of each investor’s business.

What do affected entities need to do?

The revised standard is effective for annual periods beginning on or after 1 January 2013; earlier application is permitted.

IFRS preparers should consider whether IFRS 10 will affect their control decisions and consolidated financial statements.

Joint arrangements - IFRS 11

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted if the entire package of standards is adopted at the same time.

What is the issue?

The IASB has issued the long awaited IFRS 11 *Joint arrangements* as part of a “package” of five new standards.

Changes in the definitions have reduced the “types” of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. Entities that participate in joint operations will follow accounting much like that for joint assets or joint operations today.

Key provisions

Underlying principles

A joint arrangement is defined as being an arrangement where two or more parties contractually agree to share control. Joint control exists only when the decisions about activities that significantly affect the returns of an arrangement require the unanimous consent of the parties sharing control.

All parties to a joint arrangement should recognise their rights and obligations arising from the arrangement. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement.

The structure and form of the arrangement is only one of the factors to consider in assessing each party’s rights and obligations. The terms and conditions agreed by the parties (e.g. agreements that may modify the legal structure or form of the arrangement) and other relevant facts and circumstances should also be considered. If the facts and circumstances change, a venturer needs to reassess:

- whether it has joint control; and/or
- the type of joint arrangement in which it is involved.

Types of joint arrangements and their measurement

IFRS 11 classifies joint arrangements as either joint operations or joint ventures. The “jointly controlled assets” classification in IAS 31 *Interests in Joint Ventures* has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome.

A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. A joint operator will recognise its interest based on its involvement in the joint operation (that is, based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement.

A joint operator in a joint operation will therefore recognise in its own financial statements:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output of the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. A joint venturer does not have rights to individual assets or obligations for individual liabilities of the joint venture. Instead, joint venturers share in the net assets and, in turn, the outcome (profit or loss) of the activity undertaken by the joint venture. Joint ventures are accounted for using the equity method in accordance with IAS 28 *Investments in Associates*. Entities can no longer account for an interest in a joint venture using the proportionate consolidation method.

The standard also provides guidance for parties that participate in joint arrangements but do not have joint control.

Which entities are affected?

Entities with existing joint arrangements or that plan to enter into new joint arrangements will be affected by the new standard. These entities will need to assess their arrangements to determine whether they have invested in a joint operation or a joint venture upon adoption of the new standard or upon entering into the arrangement.

Entities that have been accounting for their interest in a joint venture using proportionate consolidation will no longer be allowed to use this method; instead they will account for the joint venture using the equity method. In addition, there may be some entities that previously equity-accounted for investments that may need to account for their share of assets and liabilities now that there is less focus on the structure of the arrangement.

The transition provisions of IFRS 11 require entities to apply the new rules at the beginning of the earliest period presented upon adoption. When transitioning from the proportionate consolidation method to the equity method, entities should recognise their initial investment in the joint venture as the aggregate of the carrying amounts that were previously proportionately consolidated. In transitioning from the equity method to accounting for assets and liabilities, entities should recognise their share of each of the assets and liabilities in the joint operation, with specific rules detailing how to account for any difference from the previous carrying amount of the investment.

What do affected entities need to do?

Management of entities that are party to joint arrangements should evaluate how the requirements of the new standard will affect the way they account for their existing or new joint arrangements. The accounting may have a significant impact on entities' financial results and financial position, which should be clearly communicated to stakeholders as soon as possible.

Management should also carefully consider the planned timing of their adoption. If they wish to retain the current accounting for existing arrangements, now is the time to consider how the terms of these arrangements can be reworked or restructured to achieve this.

Disclosure of interests in other entities – IFRS 12

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

What is the issue?

The IASB has issued IFRS 12 *Disclosure of interests in other entities* as part of the group of five new standards that address the scope of the reporting entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 *Consolidated financial statements* and IFRS 11 *Joint arrangements*; it replaces the disclosure requirements currently found in IAS 28 *Investments in associates*. IAS 27 is renamed *Separate financial statements* and is now a standard dealing solely with separate financial statements. The existing guidance and disclosure requirements for separate financial statements are unchanged.

The new standard, IFRS 12, requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

To meet this objective, disclosures are required in the following areas:

Significant judgements and assumptions

Significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some other interests in other entities include:

- an assessment of principal-agent relationships in consolidation;
- determination of the type of joint arrangement; and
- any override of presumptions of significant influence and control when voting rights range from 20% to 50%, and exceed 50%, respectively.

Interests in subsidiaries

This includes information about:

- group composition;
- interests of non-controlling interests (NCI) in group activities and cash flows, and information about each subsidiary that has material NCI, such as name, principal place of business and summarised financial information;
- significant restrictions on access to assets and obligations to settle liabilities;
- risks associated with consolidated structured entities, such as arrangements that could require the group to provide financial support;
- accounting for changes in the ownership interest in a subsidiary without a loss of control – a schedule of the impact on parent equity is required;
- accounting for the loss of control – detail of any gain/loss recognised and the line item in the statement of comprehensive income in which it is recognised; and
- subsidiaries that are consolidated using different year ends.

Interests in joint arrangements and associates

Detailed disclosures include:

- the name, country of incorporation and principal place of business;
- proportion of ownership interest and measurement method;
- summarised financial information;
- fair value (if published quotations are available);
- significant restrictions on the ability to transfer funds or repay loans;
- year-ends of joint arrangements or associates if different from the parent's; and
- unrecognised share of losses, commitments and contingent liabilities.

Interests in unconsolidated structured entities

Detailed disclosures include:

- the nature, purpose, size, activities and financing of the structured entity;
- the policy for determining structured entities that are sponsored;
- a summary of income from structured entities;
- the carrying amount of assets transferred to structured entities;
- the recognised assets and liabilities relating to structured entities and line items in which they are recognised;
- the maximum loss arising from such involvement; and
- information on financial or other support provided to such entities, or current intentions to provide such support.

Which entities are affected?

All entities that have interests in subsidiaries, associates, joint ventures or unconsolidated structured entities are likely to face increased disclosure requirements.

The standard is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. An entity can provide any or all of the above disclosures without having to apply IFRS 12 in its entirety, or IFRS 10 or 11, or the amended IAS 27 or 28.

What do affected entities need to do?

Management should consider whether it needs to implement additional processes to be able to compile the required information.

Fair value measurement – IFRS 13

Effective date

Annual periods beginning on or after 1 January 2013. Early adoption is permitted.

What is the issue?

The IASB has completed its joint project with the FASB on fair value measurement, issued as IFRS 13 *Fair value measurement*.

IFRS 13 explains how to measure fair value and aims to enhance fair value disclosures; it does not say when to measure fair value or require additional fair value measurements.

Although the project converges IFRS and US GAAP on how to measure fair value, there will continue to be differences in certain respects, including when fair value measurements are required and when Day 1 gains and losses can be recognised.

Key provisions

Scope

The guidance in IFRS 13 does not apply to transactions within the scope of IFRS 2 *Share-based payment* or IAS 17 *Leases*, or to certain other measurements that are required by other standards and are similar to, but are not, fair value (e.g. value in use in IAS 36 *Impairment of assets*).

Definition of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

The fair value of a liability therefore reflects non-performance risk (that is, own credit risk).

Principal or most advantageous market

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market is the market with the greatest volume and level of activity for the asset or liability that can be accessed by the entity.

Market participant assumptions

Fair value is measured using the same assumptions and taking into account the same characteristics of the asset or liability as market participants would. Fair value is a market-based, not entity-specific measurement.

Highest and best use

For non-financial assets only, fair value is determined based on the highest and best use of the asset as determined by a market participant.

Bid and ask prices

The use of bid prices for asset positions and ask prices for liability positions is permitted if those prices are most representative of fair value in the circumstances, but it is not required.

Fair value hierarchy

Fair value measurements are categorised into a three-level hierarchy, based on the type of inputs to the valuation techniques used, as follows:

- Level 1 inputs are quoted prices in active markets for items identical to the asset or liability being measured. Consistent with current IFRS, if there is a quoted price in an active market (that is, a Level 1 input), an entity uses that price without adjustment when measuring fair value;
- Level 2 inputs are other observable inputs; and
- Level 3 inputs are unobservable inputs, but that nevertheless must be developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability.

Each fair value measurement is categorised based on the lowest level input that is significant to it.

Disclosures

The guidance includes enhanced disclosure requirements that could result in significantly more work for reporting entities. These requirements are similar to those in IFRS 7 *Financial instruments: Disclosures* but apply to all assets and liabilities measured at fair value, not just financial ones.

The required disclosures include:

- information about the hierarchy level into which fair value measurements fall;
- transfers between Levels 1 and 2;
- methods and inputs to the fair value measurements and changes in valuation techniques; and
- additional disclosures for Level 3 measurements that include a reconciliation of opening and closing balances, quantitative information about unobservable inputs and assumptions used, a description of the valuation processes in place, and qualitative discussion about the sensitivity of recurring Level 3 measurements.

Transition and effective date

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. It is applied prospectively as of the beginning of the annual period in which it is initially applied.

The disclosure requirements of the new guidance do not need to be applied in comparative information for periods before initial application of IFRS 13.

Which entities are affected?

Almost all entities use fair value measurements and will therefore be subjected to the new requirements. Some changes may be required (e.g. bid/ask spread and inclusion of own credit risk) to those fair value measurements today, which will largely affect financial institutions and investment entities. However, there are enhanced disclosure requirements that will be required by all entities.

What do affected entities need to do?

Preparers should begin by evaluating the nature and extent of the fair value measurements that they are currently required to make under IFRS. Management will need to determine which, if any, of the measurement techniques used will have to change as a result of the new guidance, and what additional disclosures will be necessary.

Presentation of financial statements – Amendment to IAS 1

The IASB has issued an amendment to IAS 1 *Presentation of financial statements*. The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income.

Effective date

Annual periods beginning on or after 1 July 2012. Early adoption is permitted and full retrospective application is required.

What is the issue?

The IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.

The amendment does not address which items should be presented in OCI and the option to present items of OCI either before tax or net of tax has been retained.

The amendment was developed jointly with the FASB, which has removed the option in US GAAP to present OCI in the statement of changes in equity.

Key provisions

The amendment requires entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as revaluation gains on property, plant and equipment will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges.

Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.

The title used by IAS 1 for the statement of comprehensive income has changed to “statement of profit or loss and other comprehensive income”. However IAS 1 still permits entities to use other titles.

Transition

The amendment is effective for annual periods beginning on or after 1 July 2012. Early adoption is permitted and full retrospective application is required.

Which entities are affected?

All entities with gains and losses presented in OCI are affected by the change to the presentation of OCI items.

What do affected entities need to do?

Management should confirm that reporting systems are able to capture the information needed to implement the revised presentation of OCI items, and update the systems where necessary.

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| <ul style="list-style-type: none"> • IFRS 9 <i>Financial Instruments</i> • IFRS 10 <i>Consolidated Financial Statements</i> • IFRS 11 <i>Joint Arrangements</i> • IFRS 12 <i>Disclosure of Interests in Other Entities</i> • IFRS 13 <i>Fair Value Measurement</i> • Amendments to IAS 1 <i>Presentation of Financial Statements</i> • IAS 19 (revised 2011) <i>Employee Benefits</i> • IAS 27 (revised 2011) <i>Separate Financial Statements</i> • IAS 28 (revised 2011) <i>Investments in Associates and Joint Ventures</i> | |

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| Amendments to FRS 32 <i>Classification of Rights Issues</i> | The scope of the amendment is narrow and does not extend to foreign-currency-denominated convertible bonds. For these instruments, the embedded option to acquire the issuer's equity may continue to be accounted for as a derivative liability with fair value changes recorded in profit or loss. | Rights issues are now required to be classified as equity if they are issued for a fixed amount of cash regardless of the currency in which the exercise price is denominated, provided they are offered on a pro rata basis to all owners of the same class of equity. Entities will no longer classify rights issues, for which the exercise price is denominated in a foreign currency, as derivative liabilities with fair value changes being recorded in profit or loss. Rather, entities will be able to classify these rights in equity with no re-measurement | – |
| <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> PwC Observation: This will result in lower income volatility. </div> | | | |
| Effective for annual periods beginning on or after 1 July 2010 | | | |
| Transition requirements for amendments arising as a result of FRS 27 <i>Consolidated and Separate Financial Statements</i> | – | Clarifies that the consequential amendments to FRS 21, FRS 28 and FRS 31 resulting from the 2008 revisions to FRS 27 (effective from 1 July 2009) are to be applied prospectively. | – |
| Amendments to FRS 101 <i>Limited Exemption from Comparative FRS 107 Disclosures for First-time Adopters</i> | – | <p>The amendment provides first-time adopters of FRSs with the same transition provisions as those included in the amendment to FRS 107 (effective for annual periods beginning on or after 1 January 2009) relating to enhanced disclosures about fair value measurements and liquidity risk.</p> <p>A first time adopter is exempted from such disclosures for any comparative periods that end before 31 December 2009.</p> | – |

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| Amendments to FRS 103 <i>Business Combinations</i> | – | <p>The amendment clarifies that:</p> <ul style="list-style-type: none"> Contingent consideration arrangements arising from business combinations with acquisition dates preceding the application of FRS 103 Revised (2008) are to be accounted for in accordance with the guidance in the previous version of FRS 103 (as issued in 2004). <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><u>PwC Observation:</u> This means that such contingent consideration arrangements are recognised only when payment becomes probable and subsequent changes in estimate of the amounts payable will continue to be adjusted against goodwill.</p> </div> <ul style="list-style-type: none"> The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. The application guidance in FRS 103 applies to all share-based payment transactions that are part of a business combination, including un-replaced and voluntarily replaced share-based payment awards. | – |

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| INT FRS 119 <i>Extinguishing Financial Liabilities with Equity Instruments</i> | – | <p>The interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a “debt for equity swap”).</p> <p>It requires a gain or loss to be recognised in profit or loss when a liability is settled through the issuance of the entity’s own equity instruments. The amount of the gain or loss recognised in profit or loss will be the difference between the carrying value of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments cannot be reliably measured then the fair value of the existing financial liability is used to measure the gain or loss.</p> <p>Entities will no longer be permitted to reclassify the carrying value of the existing financial liability into equity (with no gain or loss being recognised in the profit or loss). The amount of the gain or loss should be separately disclosed on the face of the statement of comprehensive income or in the notes.</p> | – |
| Effective for annual periods beginning on or after 1 January 2011 | | | |
| Amendments to FRS 1 <i>Presentation of Financial Statements</i> | – | – | Clarifies that the reconciliation of changes in each component of equity shall show separately each movement of comprehensive income and this reconciliation can be presented either in the statement of changes in equity or within the notes. |

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| Amendments to FRS 24 <i>Related Party Disclosures</i> | The amendments clarify and simplify the definition of a related party. Previously, the definition of a related party was complicated and contained a number of inconsistencies. These inconsistencies meant, e.g. that there were situations in which only one party to a transaction was required to make related-party disclosures. The definition has been amended to remove the inconsistencies and to make it easier to apply. | – | <p>The amendment removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.</p> <p>Government-related entities are now defined as entities that are controlled, jointly controlled or significantly influenced by the government.</p> <p>With the amendment, all the disclosure requirements of FRS 24 for transactions between government-related entities and the government, and all other government-related entities are exempted. Those disclosures are replaced with a requirement to disclose:</p> <ul style="list-style-type: none"> (a) the name of the government and the nature of their relationship (b) (i) the nature and amount of any individually-significant transactions (ii) the extent of any collectively-significant transactions qualitatively or quantitatively. |
| Amendments to FRS 34 <i>Interim Financial Reporting</i> | – | – | Greater emphasis has been placed on the disclosure principles in FRS 34 involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report. |
| Amendments to FRS 101 <i>First-time Adoption of Financial Reporting Standards</i> | – | – | A first-time adopter that changes its accounting policies or its use of FRS 101 exemptions after publishing a set of FRS 34 interim financial information should explain those changes and include the effects of such changes in its opening reconciliations within the first annual FRS financial statements. |

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| | – | First-time adopters that have revalued some or all of their assets and liabilities at one particular date prior to FRS adoption, because of an event such as a privatization or initial public offering, are currently allowed to use such event-driven fair value measurements as deemed cost under FRS. This exemption has been extended to revaluations that occur during the period covered by the first FRS financial statements. In such cases, the resulting adjustments are recognised directly in equity at the measurement date. | – |
| | – | Entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost at the date of transition to FRS on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under FRS 36 at the date of transition. | Entities that use this exemption should disclose the use of this exemption and the basis on which carrying amounts were determined under previous GAAP. |
| Amendments to FRS 107 <i>Financial Instruments: Disclosures</i> | – | – | <p>Key amendments include:</p> <ul style="list-style-type: none"> • Removal of requirement to disclose carrying amount of renegotiated financial assets that would be past due or impaired if not for the renegotiation • Clarification that disclosure of amount that best represents maximum exposure to credit risk is not required when this amount is represented by the carrying amount of the financial instrument • Requirement to disclose fair value of collateral and other credit enhancements is replaced with a description to disclose the financial effect of collateral and other credit enhancements • Clarification that entities are only required to disclose the amount of foreclosed collateral held at the reporting date. Previously it was not clear whether entities were required to disclose all collateral obtained during the year. |

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| Amendments to INT FRS 113 <i>Customer Loyalty Programmes</i> | – | The meaning of the term “fair value” is clarified in the context of measuring award credits under customer loyalty programs. It is clarified that the fair value of such award credits is not necessarily equal to the fair value of redemption awards, but it should also take account of expected forfeitures as well as discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale. | – |
| Amendments to INT FRS 114 <i>Pre-payments of a Minimum Funding Requirement</i> | – | <p>The amendment to INT FRS 114 removes an unintended consequence of the previous interpretation relating to voluntary pension prepayments when there is a minimum funding requirement. Some entities that are subject to minimum funding requirement may elect to prepay their pension contributions and recover them through lower minimum funding requirements in the future. An unintended consequence prior to this amendment was that the interpretation could prevent the recognition of an asset for any surplus arising from voluntary prepayment in respect of future service.</p> <p>The interpretation has been amended to require an asset to be recognised in these circumstances.</p> <div> <p>PwC Observation: It will have a limited impact, as it only applies to companies that are required to make minimum funding contributions to a defined benefit pension plan and choose to prepay those contributions.</p> </div> | – |

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| INT FRS 115 Agreements for the <i>Construction of Real Estate</i> | <p>Provides guidance on how and when revenue from the construction of real estate should follow FRS 11 Construction Contracts or FRS 18 Revenue.</p> <p>The ASC also issued an Accompanying Note with INT FRS 115 (the “Accompanying Note”), which distils the ASC’s considerations in reaching its consensus on the accounting treatment for the sale of uncompleted residential properties “off-plan” in Singapore.</p> <p>The Accompanying Note is an integral part of INT FRS 115 and is to be read together with the interpretation.</p> | <ul style="list-style-type: none"> The interpretation clarifies that an agreement for the construction of real estate meets the definition of a construction contract and will be able to use percentage-of-completion accounting only when the buyer is able to: <ul style="list-style-type: none"> specify the major structural elements of the design of the real estate before construction begins; and/or specify major structural changes once construction is in progress (whether or not it exercises that ability). If the agreement is not a construction contract, it may be an agreement for the rendering of services if the entity is not required to acquire and supply the construction materials required for the construction. In this situation, the entity may still be able to use percentage-of-completion accounting. If the agreement is neither a construction contract nor a service contract, it is a contract to supply goods for which FRS 18 should be applied. In this case, the percentage-of-completion accounting can only be applied if the entity transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. The standard residential property sales in Singapore meet the criteria set out in FRS 18.14 that would require such sales to be accounted for on a percentage-of-completion method. However, in some situations specific to the circumstances of a development project as described in paragraph 32, there might be uncertainties that | – |

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| | | <p>would require the completion of construction method to be applied, consistently with the principles set out in FRS 18 for the treatment of revenue when such uncertainties exist.</p> <div style="border: 1px solid black; padding: 5px;"> <p>PwC Observation: Entities that have previously recognised revenue from the sale of real estate under FRS 11 (i.e. revenue recognises over the period of construction) will be most significantly affected if their arrangements do not meet the definition of a construction contract (e.g. entities that build residential houses or apartments for sale to individuals) or it does not satisfy the criteria for continuous transfer of control, risks and rewards of the construction in progress.</p> </div> <p>Such entities will recognise the revenue when the criteria for the sale of goods and/or services under FRS 18, as appropriate, have been satisfied.</p> <p>The impact of the interpretation may not be restricted to real estate entities. It can also be applicable to other entities that build and sell other assets that take significant time to build, such as ships.</p> <p>The Accompanying Note in INT FRS 115 sets a narrow scope for the sale of uncompleted residential properties “off-plan” in Singapore. Hence, all the criteria set out in FRS 18 and INT FRS 115 (including the Accompanying Note) should be carefully analysed to ensure that the requirements for applying the percentage-of-completion method for revenue recognition purposes are met for SPAs that are outside the scope of the Accompanying Note (e.g. Deferred Payment Scheme, Design-build-and-sell Scheme, commercial properties, mixed developments etc).</p> | |

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| Amendments to FRS 101 <i>Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i> | References to a fixed date of “1 January 2004” are replaced with “the date of transition to FRSs”, thus eliminating the need for companies adopting FRSs for the first time to restate derecognition transactions that occurred before the date of transition to FRSs. | – | Guidance is provided on how an entity should resume presenting financial statements in accordance with FRSs after a period when the entity was unable to comply with FRSs because its functional currency was subject to severe hyperinflation. |
| Amendments to FRS 107 <i>Disclosures-Transfers of Financial Assets</i> | – | – | <p>The required disclosures for these financial assets add to those already in IFRS 7. New requirements mainly include:</p> <p>For transferred assets that are not derecognised in their entirety:</p> <ul style="list-style-type: none"> • A description of the nature of the relationship between the transferred assets and the associated liabilities; and • A schedule that sets out the fair value of the transferred assets, the fair value of the associated liabilities and the net position, when the counterparty to the associated liabilities has recourse only to the transferred assets. <p>For transferred assets that are derecognised in their entirety:</p> <ul style="list-style-type: none"> • The carrying amount and fair value of the continuing involvement; • The maximum exposure to loss from the continuing involvement; • Any future cash outflows to repurchase the derecognised assets and a maturity analysis of those cash outflows; |

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| | | | <ul style="list-style-type: none"> • A description of the nature and purpose of the continuing involvement and the risk the entity remains exposed to; • The gain or loss at date of derecognition; • The income and expense recognised from the continuing involvement; and • Whether transfer activity is unevenly distributed in the period. |
| Effective for annual periods beginning on or after 1 January 2012 | | | |
| Amendment to FRS 12 <i>Deferred Tax: Recovery of Underlying Assets</i> | – | The amendments introduce a presumption that an investment property is recovered entirely through sale for investment property measured using fair value model. Hence the tax rate used to measure the deferred tax liability is the tax rate applicable on sale of the investment property. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. | – |
| <div style="border: 1px solid black; padding: 10px; margin-top: 10px;"> <p><u>PwC Observation:</u> The amendment will affect entities holding investment property measured at fair value in territories where the capital gains tax rate is different from the income tax rate, or/and the tax base from sale is different from tax base from use. For example, the deferred tax liability will be reduced significantly and movements in the fair value of investment property will not be tax-affected in a territory where there is no capital gains tax.</p> </div> | | | |

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| IFRS 9 <i>Financial Instruments</i> (effective for annual periods beginning on or after 1 January 2013) | Applies to all financial assets within the scope of IAS 39, including hybrid financial instruments with financial assets hosts. IFRS 9 does not apply to financial liabilities and hybrid contracts with hosts that are not financial assets. | <p>Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.</p> <p>An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.</p> <p>All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.</p> | <p>IFRS 9 resulted in consequential amendments to IFRS 7 to align IFRS 7 disclosures with the new accounting requirements. Key disclosures include:</p> <ul style="list-style-type: none"> • Amounts of equity investments held at fair value through other comprehensive income, the reason for using this presentation alternative, the fair value of such investments, dividends recognised and equity transfers in relation to such investments. If there are any disposals of such investments, the reasons for such disposals, fair values at disposal date and cumulative gain/loss on such disposals. • For any assets reclassified from fair value to amortised cost or vice versa, the date of reclassification, a detailed explanation of the change in business model and a qualitative description of its effect on the financial statements, the cumulative amounts reclassified, the effective interest rates upon reclassification, interest income/expense recognised on reclassified amounts, fair value at reporting date of financial assets reclassified to fair value, etc. • For financial assets at amortised cost that are derecognised, gains and losses arising from derecognition, as well as reasons for derecognition. • Disclosures upon transition such as the original category under IAS 39 versus the new category in IFRS 9, etc. |
| | Additions to IFRS 9 <i>Financial Instruments' dealing with financial liabilities</i> | In cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than to the income statement, unless this creates an accounting mismatch. | – |

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| IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2011) | | | |
| IFRS 10 <i>Consolidated Financial Statements</i> (effective for annual periods beginning on or after 1 January 2013) | <p>IFRS 10 replaces all of the guidance on control and consolidation in IAS 27 'Consolidated and Separate Financial Statements' and SIC 12 'Consolidation – Special Purpose Entities'. The same criteria are now applied to all entities to determine control.</p> <p>IFRS 10 excludes from its scope investment companies. The IASB is working on a project for investment companies to account for their controlled investments at fair value through profit or loss. An Exposure draft is expected for Q3 2011.</p> | <p>It introduces a revised definition of control that focuses on the need to have both power and variable returns before control is present.</p> <p>This definition is supported by extensive application guidance that addresses the different ways in which a reporting entity might control another entity, including:</p> <ul style="list-style-type: none"> • Control with less than half of the voting rights (known as <i>de facto</i> control); • Participating and protective rights (often known as veto rights) given to investors; • Determining whether an entity has control (is a principal) or is acting as agent for other parties; • Potential voting rights and when they are considered as substantive. <p>The mechanics of consolidation remain unchanged.</p> | Disclosures relating to subsidiaries are parked in IFRS 12 <i>Disclosure of Interests in Other Entities</i> (please refer below) |

PwC Observation:

The changed definition and application guidance is not expected to result in widespread change in the consolidation decisions of existing IFRS reporting entities, except for two areas that should be considered carefully:

- Situations where *de facto* control might exist
- Situations where an entity might act as an agent for other parties. That could be the case of certain managers of REITs (Real Estate Investment Trusts), Business Trusts or Investment funds.

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| IFRS 11 <i>Joint Arrangements</i> (effective for annual periods beginning on or after 1 January 2013) | <p>IFRS 11 replaces IAS 31 <i>Interests in Joint Ventures</i> and applies to all entities that are a party to a joint arrangement (i.e. when there is a contractual agreement to share control over the operations of an entity, known as joint control).</p> <p>It provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.</p> <p>These changes in the definitions have reduced the types of joint arrangements to two:</p> <ul style="list-style-type: none"> • Joint operations, where a joint operator has rights to the assets and obligations for the liabilities of the arrangement; and • Joint ventures, where the joint operator has rights to the net assets of the arrangement. <p>The jointly controlled assets category in IAS 31 has been merged into joint operations.</p> | <p>A joint operator in a joint operation recognises in its own financial statements its assets, liabilities, revenue from the sale of its share of the output and expenses, as well as its share of the assets held jointly, its share of the liabilities incurred jointly, and its share of the revenues and expenses of the joint operation.</p> <p>A joint venturer in a joint venture accounts for its rights to the net assets of the arrangement using the equity accounting method in IAS 28 (Revised 2011) <i>Investments in Associates and Joint Ventures</i>. Proportionate consolidation of joint ventures is no longer allowed.</p> | Disclosures relating to joint arrangements are parked in IFRS 12 'Disclosure of Interests in Other Entities' (please refer below) |

PwC Observation:

Entities that conduct their business through joint arrangements should consider carefully the impact of IFRS 11 on their existing or new joint arrangements. The accounting may have a significant impact on their financial results and financial position. If they wish to retain the current accounting for existing arrangements, now is the time to consider how the terms of these arrangements can be reworked or restructured to achieve this.

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| IFRS 12 <i>Disclosures of Interests in Other Entities</i> (effective for annual periods beginning on or after 1 January 2013) | IFRS 12 sets out the required disclosures for entities reporting under the two new standards, IFRS 10 <i>Consolidated financial statements</i> and IFRS 11 <i>Joint arrangements</i> . It replaces and harmonises the disclosure requirements currently found in IAS 27 <i>Consolidated and Separate Financial Statements</i> , IAS 28 <i>Investments in associates</i> and IAS 31 <i>Interests in Joint Ventures</i> . Applies to all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. | – | <p>IFRS 12 requires disclosure of information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in (1) subsidiaries, (2) associates, (3) joint arrangements and (4) unconsolidated structured entities. The key disclosures are:</p> <p><u>For all entities:</u></p> <ul style="list-style-type: none"> Significant judgments and assumptions made in determining whether the entity controls, jointly controls, or significantly influences an entity; <p><u>For subsidiaries:</u></p> <ul style="list-style-type: none"> Interests that the non-controlling interests (NCI) have in the group's activities for each subsidiary with material NCI; Nature and extent of significant restrictions over the ability to access assets and liabilities of a subsidiary; Nature and risks of an entity's interests in consolidated structured entities; Financial effects of changes in ownership interests without loss of control; Financial effects of losing control over a subsidiary; <p><u>For joint arrangements and associates:</u></p> <ul style="list-style-type: none"> Nature, extent and financial effects of the interests for each material joint arrangement and associate, and in aggregate for all other non-material interests; <p><u>For unconsolidated structured entities:</u></p> <ul style="list-style-type: none"> Nature of interests, including for sponsored entities. This includes qualitative and quantitative information by type of unconsolidated structured entity; Nature of risks, including maximum exposure to loss. |

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| IFRS 13 <i>Fair Value Measurement</i> (effective for annual periods beginning on or after 1 January 2013) | IFRS 13 provides consistent guidance across IFRSs on how fair value should be determined and which disclosures should be made in the financial statements. The guidance in IFRS 13 does not apply to transactions within the scope of IFRS 2 <i>Share-based payment</i> or IAS 17 <i>Leases</i> , or to certain other measurements that are required by other standards and are similar to, but are not, fair value (e.g. value in use in IAS 36, <i>Impairment of assets</i>). | <p>IFRS 13 does not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.</p> <p>Together with the amended definition of fair value, the following are the key provisions:</p> <ul style="list-style-type: none"> • A fair value measurement assumes that a transaction will take place in the principal or most advantageous market relating to the asset or liability being fair valued • Fair value is measured using market participant assumptions, not entity-specific assumptions. How an entity intends to use an asset is irrelevant when determining its fair value. • For non-financial assets, fair value is determined by reference to the highest and best use of the asset, which could differ from its current use. • Bid and ask prices for asset and liability positions are permitted, but not required. • Fair value measurements are categorised into a three-level hierarchy, same as what is currently the case under IFRS 7 for fair value disclosures of financial instruments. | <p>Requirements are similar to those in IFRS 7, <i>Financial instruments: Disclosures</i>, but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities.</p> <p>The required disclosures include:</p> <ul style="list-style-type: none"> • Information about the hierarchy level into which fair value measurements fall; • Transfers between Levels 1 and 2; • Methods and inputs to the fair value measurements and changes in valuation techniques; and • Additional disclosures for Level 3 measurements that include a reconciliation of opening and closing balances, quantitative information about unobservable inputs and assumptions used, a description of the valuation processes in place, and qualitative discussion about the sensitivity of recurring Level 3 measurements. <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>PwC Observation: Entities that own non-financial assets at fair value, such as investment properties, property carried at revalued amount or biological assets, will be affected by the extent of the new disclosures.</p> </div> |
| Amendments to IAS 1 <i>Presentation of Financial Statements</i> (effective for annual periods beginning on or after 1 July 2012) | – | – | Items presented in OCI are required to be separated into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled such as revaluation gains on property, plant and equipment will be presented separately from items that may be recycled in the future, such as deferred gains and losses on cash flow hedges. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. |

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| | Scope and Definition | Measurement and Recognition | Presentation and Disclosures |
| IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2011) | | | |
| IAS 19 (revised 2011) <i>Employee Benefits</i> (effective for annual periods beginning on or after 1 January 2013) | – | <p>Key changes include:</p> <ul style="list-style-type: none"> Actuarial gains and losses will be recognised immediately in OCI and cannot be deferred using the corridor approach or recognised in profit or loss. No recycling through profit or loss in subsequent periods. Past-service costs will be recognised in the period of a plan amendment; unvested benefits will no longer be spread over a future-service period. A curtailment now occurs only when an entity reduces significantly the number of employees. Curtailment gains/losses are accounted for as past-service costs. Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the finance charge and expected return on plan assets, and will increase benefit expense for most entities. Taxes related to benefit plans should be included either in the return on assets or the calculation of the benefit obligation, depending on their nature. Investment management costs should be recognised as part of the return on assets. | <p>Key changes include:</p> <ul style="list-style-type: none"> Benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. This analysis can be in the income statement or in the notes. Additional disclosures are required to present the characteristics of benefit plans, the amounts recognised in the financial statements, and the risks arising from defined benefit plans and multi-employer plans. The distinction between short- and long-term benefits for measurement purposes is based on when payment is expected, not when payment can be demanded. An obligation measured as a long-term benefit could therefore be presented as a current liability when the entity expects to settle after more than one year, but does not have the unconditional ability to defer settlement for more than one year. |

Summary of Key Changes on Singapore Financial Reporting Standards (FRS)

As at 31 August 2011

| Standard/ Interpretation | Significant changes on | | |
|---|--|---|---------------------------------|
| | Scope and Definition | Measurement and Recognition | Presentation and Disclosures |
| IFRS Amendments and Interpretations not yet adopted in Singapore (As at 31 August 2011) | | | |
| IAS 27 (revised 2011) <i>Separate Financial Statements</i> (effective for annual periods beginning on or after 1 January 2013) | IAS 27 (revised 2011) now applies only to accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements. The requirements on control and consolidation are now dealt within a separate IFRS, IFRS 10 (see above). | – | – |
| IAS 28 (revised 2011) <i>Investments in Associates and Joint Ventures</i> (effective for annual periods beginning on or after 1 January 2013) | IAS 28 (revised 2011) now applies to both the accounting for investments in associates and joint ventures. Joint ventures are indeed now required to be equity accounted for, with proportionate consolidation being no longer permitted. However, it still does not apply to investments in associates and joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds, when such entities elect to measure the investments at fair value through profit or loss. | Joint ventures, as well as associates, are now required to be equity accounted for. | – |

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