KPMG

Illustrative Annual Financial Statements Under Hong Kong Financial Reporting Standards

December 2017

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Contents

Abbreviations

Example of abbreviation used	Sources
CO	Hong Kong Companies Ordinance (Cap. 622)
S380(2)(a)	Paragraph 2(a) of Section 380 of the Hong Kong Companies Ordinance (Cap. 622)
C(DR)R.7	Section 7 of Companies (Directors' Report) Regulation (Cap. 622D)
C(DIBD)R	Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G)
Sch 5	Schedule 5 to the Hong Kong Companies Ordinance (Cap. 622)
HKICPA	Hong Kong Institute of Certified Public Accountants
HKFRS	Hong Kong Financial Reporting Standard
HKAS	Hong Kong Accounting Standard
HKAS 1.138(a)	Paragraph 138(a) of Hong Kong Accounting Standard 1
HK (IFRIC)	HK (IFRIC) Interpretation
HK (SIC)	HK (SIC) Interpretation
HK (INT)	HK Interpretation
HKSA	Hong Kong Standard on Auditing
HKSA 700.17(a)	Paragraph 17(a) of Hong Kong Standard on Auditing 700
PNote 600.1(22)	Paragraph 22 of Practice Note 600.1 issued by the HKICPA
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
IAS	International Accounting Standard
IFRIC	IFRS Interpretations Committee
SEHK	The Stock Exchange of Hong Kong Limited
MBLRs	Main Board Listing Rules of the SEHK
A16(2)	Paragraph 2 of Appendix 16 to the MBLRs
R17.07(1)	Paragraph 1 of Rule 17.07 of the MBLRs
PN5(3.2)	Paragraph 3.2 of Practice Note 5 of the MBLRs
CP	Current common practice in Hong Kong or recommended by KPMG (but not specifically required or recommended in any of the various guidelines or standards)
GAAP	Generally accepted accounting principles

Foreword

This Guide has been prepared primarily to give guidance in respect of companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (SEHK), which are required to prepare their annual reports in accordance with the applicable disclosure provisions of the Main Board Listing Rules of the SEHK (MBLRs).

This Guide includes:

- an illustrative annual report for the year ended 31 December 2017 issued by a fictitious Main Board listed company, HK Listco Ltd ("HK Listco"), which includes:

    - a directors' report,

    - an independent auditor's report to the shareholders of the company,

    - annual financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, the Hong Kong Companies Ordinance and the applicable disclosure provisions of the MBLRs, and

    - a list of group properties and five year summary as required by Appendix 16 to the MBLRs, *Disclosure of financial information*;

- further information on recent developments in HKFRSs, including a brief overview of their scope and requirements;

- a complete index of all HKFRSs, including their Interpretations, in issue as of 26 September 2017;

- a list of exposure drafts in issue as of 26 September 2017; and

- additional guidance on requirements applicable to non-Hong Kong incorporated entities listed in Hong Kong.

Recent financial reporting developments

Appendix B to this Guide sets out a complete list of recent developments in HKFRSs which are first effective for annual periods beginning on or after 1 January 2017, including a brief overview of these new developments. The list is current as of 26 September 2017 and contains two tables:

- table B1 lists those amendments to HKFRSs which are required to be adopted in annual accounting periods beginning on or after 1 January 2017; and

- table B2 lists other developments which are available for early adoption in that period, but are not yet mandatory.

All of these developments arise from the HKICPA adopting equivalent changes made to IFRSs by the IASB, word for word and with the same effective dates and transitional provisions. As of 26 September 2017, there are no recent amendments to IFRSs which the HKICPA has yet to adopt, except for IFRS 17, *Insurance contracts,* which was issued by the IASB on 18 May 2017. We expect that the HKICPA will adopt the standard in the near future.

As can be seen from table B1, there are only three amendments which are first effective for annual periods beginning 1 January 2017. Two of them clarify existing requirements, while the third one, the amendments to HKAS 7, *Statement of cash flows*, requires entities to provide additional information about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. It is likely that all entities will need to disclose additional information as a result of this new requirement. A straightforward way to ensure completeness of disclosure and present the information in an understandable way is to disclose a reconciliation of the opening and closing balances of liabilities arising from financing activities. We have illustrated this in note 22(c).

Amendments and new standards issued but not yet effective for the year ended 31 December 2017 as listed out in table B2 include three major standards which are expected to impact a wide range of entities, namely HKFRS 9, *Financial instruments*, HKFRS 15, *Revenue from contracts with customers* and HKFRS 16, *Leases.* HKFRS 9 and HKFRS 15 are first effective for annual periods beginning 1 January 2018. Therefore, at the time when the entities with a calendar year-end issue their 2017 financial statements, HKFRS 9 and HKFRS 15 will have already been in effect. Given this, we expect that by that time most entities will have completed the transition work or will be at an advanced stage in their implementation process, and should therefore be in a position to describe more precisely the possible impacts of the standards in the 2017 financial statements. This may also be the case for HKFRS 16 given the close proximity to the effective date of HKFRS 16. Example disclosures of the expected impacts of HKFRS 9, HKFRS 15 and HKFRS 16 can be found in note 41 to these financial statements, which are prepared based on the assumed facts and circumstances of HK Listco. As with other illustrative disclosures in this Guide, care should be taken to tailor these disclosures to suit the entity's circumstances.

In addition, Appendix D to this Guide lists out the current exposure drafts in issue to give some indication as to the future developments to watch out for.

Illustrative Annual Report

(for a company incorporated in Hong Kong and listed on the Main Board of the Stock Exchange of Hong Kong)

31 December 2017

Prepared in accordance with
generally accepted accounting principles
in Hong Kong

"Illustrative annual report" is produced by KPMG China's Department of Professional Practice and is for the use of clients, partners and staff of KPMG. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity, or to illustrate all the regulatory or HKFRS disclosures that may need to be made to reflect the particular circumstances of a reporting entity.

Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation. All entities and persons mentioned herein are fictitious. Any resemblance to any entities or persons is purely coincidental.

Information for users of this illustrative annual report

The following annual report is prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, the Hong Kong Companies Ordinance (HKCO) and the applicable disclosure provisions of the Main Board Listing Rules of the SEHK (MBLRs).

The annual report is assumed to have been issued by a fictitious Main Board listed company, HK Listco Ltd (HK Listco) for the year ended 31 December 2017. HK Listco Ltd and its subsidiaries are primarily involved in the businesses of manufacturing and sale of electronic products, property development, construction and trading and property investment, in and outside Hong Kong.

HK Listco Ltd is assumed to have been applying HKFRSs issued by the HKICPA in prior periods. Entities applying HKFRSs for the first time in their annual financial reports will also need to consider the application of HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*, when making the transition from previous GAAP to HKFRSs[1].

The following annual report illustrates the effects of certain changes that may commonly affect Hong Kong entities. However, it should not be relied upon to identify all of the significant changes that an entity may need to make as a result of the new or revised HKFRSs first effective from 1 January 2017.

As further discussed in the Foreword to this Guide, to assist in the assessment of the effects of the new and revised standards, the appendices to this Guide contain further information on the new HKFRSs. The full text of the HKFRSs is available from the HKICPA's website, www.hkicpa.org.hk, under "Standards & regulation/Standards/Financial reporting".

Use of the illustrative annual report

The format and wording of this annual report are illustrative only and hence are not intended to be mandatory. Other methods or styles of presentation adopted may be equally acceptable provided that they comply with the disclosure provisions of the HKFRSs, HKCO and MBLRs and that the financial statements as a whole present a true and fair view.

The illustrative annual report does not include certain information required or recommended by the HKFRSs or MBLRs that is expected to vary significantly from one company to the next and to be particular to the entity's circumstances. Examples of such information are discount rates, specific details of hedging strategies, connected transactions, biographical details of the directors and senior managers, a separate statement containing a discussion and analysis of the listed group's performance during the year and the issuer's corporate governance report.

The illustrative annual report illustrates a range of common accounting policies and transactions but should not be used as a substitute for referring to the rules, standards and interpretations themselves. In addition, care should be taken to take account of the impact of any changes in requirements that may result from the finalisation of current exposure drafts or other current projects of the SEHK, HKICPA, IASB or its interpretive body, IFRS Interpretations Committee, between the date of this Guide and the finalisation of your annual report.

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1 For further information on transitioning to HKFRS or asserting dual compliance (for example with IFRS and HKFRS), please refer to our Hong Kong Companies Ordinance Information Sheet "Meeting the requirement to comply with applicable accounting standards and asserting dual compliance", available from your usual KPMG contact.

References

Where the HKFRSs, HKCO or MBLRs state that a specific item should be disclosed, references to the relevant paragraphs are provided. For example, the reference "HKAS 1.10(b)" is given at the start of the consolidated statement of profit or loss and other comprehensive income as paragraph 10(b) of HKAS 1 specifies that a complete set of financial statements should include such a statement. We have used "CP" to indicate disclosures that, while not required, are common practice or, in our view, are likely to be considered best practice.

The information which is not generally required to be disclosed in the directors' report or the financial statements of an unlisted company or group is highlighted by the use of black italics (see for example, the information on major customers and suppliers given on page 13).

Compliance with International Financial Reporting Standards (IFRSs)

Since the completion of the IFRS convergence project with effect from 1 January 2005, the HKICPA has maintained its policy of adopting word for word all amendments and Interpretations from their IFRS equivalents and with the same effective dates. Hence the body of HKFRSs is almost identical to the body of IFRSs.

However, some legacy differences remain and these may still result in financial statements prepared under HKFRSs showing different amounts and disclosures than would have been shown by an entity that had adopted IFRSs. For example, entities which carried property, plant and equipment at revalued amounts in financial statements relating to periods ended before 30 September 1995 are not required to make regular revaluations in accordance with paragraphs 31 and 36 of HKAS 16, *Property, plant and equipment*, even if the carrying amounts of the revalued assets are materially lower than the asset's fair values, provided that they have not revalued their property, plant and equipment subsequent to 30 September 1995.

Further information on these differences between HKFRSs and IFRSs can be found from a detailed comparison maintained by the HKICPA on their website at www.hkicpa.org.hk under "Standards & regulation/Standards/Financial reporting/References Materials".

In addition, when an entity transitions to IFRSs for the first time it is required to apply IFRS 1, *First-time adoption of IFRSs*, to the preparation of its financial statements in that first year. IFRS 1 contains a number of elections that can be made on first time adoption of IFRSs and a number of other mandatory transitional treatments. This process of transition could therefore also lead to differences between financial statements prepared in accordance with IFRSs and those that would have been prepared in accordance with HKFRSs (or other local GAAP) had the entity not transitioned to IFRSs.

Listed issuers which prepare their annual reports in accordance with IFRSs should check carefully the impact of these differences before using this Guide for reference[2].

S380 [2] Section 380 of the CO requires Hong Kong incorporated companies to prepare their annual financial statements in accordance with the applicable accounting standards "issued or specified" by the HKICPA. As a result, Hong Kong incorporated issuers can adopt IFRS only when they assert dual compliance with both HKFRS and IFRS. So far as non-Hong Kong incorporated issuers are concerned, as allowed by the Hong Kong Listing Rules, they can choose to apply IFRS or HKFRS or both.

Further information on this requirement and guidance on asserting dual compliance can be found in our Hong Kong Companies Ordinance Information Sheet "Meeting the requirement to comply with applicable accounting standards and asserting dual compliance", available from your usual KPMG contact.

HK Listco Ltd

香港上市有限公司

(Stock code: ●●●●)[3]

(formerly Model Electronics Company Limited)[4]

2017

Annual Report
for the year ended 31 December 2017

LR13.51A [3] A listed issuer shall set out its stock code in a prominent position on the cover page or, where there is no cover page, the first page of all announcements, circulars and other documents published by it pursuant to the MBLRs.

NB In June 2006, the SEHK published on its website further guidance on the practical application of Rule 13.51A in the form of an answer to one of the "frequently asked questions" on the "minor and housekeeping rule amendments" effective on 1 March 2006. This guidance states that where an issuer publishes a financial report with a glossy cover, it is acceptable to include the stock code in the corporate or shareholder information section of the document, provided the stock code is displayed prominently in such information. It also states that this application is a modification to the strict wording of Rule 13.51A, for which the SEHK has obtained consent from the Securities and Futures Commission. If in any doubt about whether such guidance is still current at the time of preparing the annual report, SEHK's Listing Division should be consulted.

HKAS 1.51(a) [4] The name of the reporting entity or other means of identification, and any change in that information from the end of the preceding reporting period should be prominently displayed and repeated when necessary for a proper understanding of the information presented.

Contents

Directors' Report

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2017.

Principal place of business

HKAS 1.138(a) HK Listco Ltd (the company) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 11/F New View Building, 100 Smith Street, Central, Hong Kong[5].

Principal activities and business review

S390(1)(b), (3) The principal activities of the company and its subsidiaries (the group) are the manufacturing and sale of electronic products, property development, property investment and carrying out construction activities for others. Further discussion and analysis of these activities as required by Schedule 5 to the Hong
S388(1)(a), (2) Kong Companies Ordinance[6], including a discussion of the principal risks and uncertainties facing the group and an indication of likely future developments in the group's business, can be found in the Management Discussion and Analysis set out on pages [•] to [•] of this Annual Report. This discussion forms part of this directors' report[7].

HKAS 1.138(a) 5 HKAS 1 requires disclosure of the address of the registered office of the company (or its principal place of business if different from its registered office) if this information is not disclosed elsewhere in information published with the financial statements.

S388(1)(a), (2)
Sch 5 6 The new Hong Kong Companies Ordinance (Cap. 622) came into effect on 3 March 2014. One of the key changes introduced by the new CO was to require all Hong Kong incorporated companies to include a "business review" in accordance with Schedule 5 to the CO in their directors' report, unless they are specifically exempted under section 388 of the CO. Paragraph 28 of Appendix 16 to the MBLRs, as amended in April 2015, requires all listed entities, whether or not they are incorporated in Hong Kong, to comply with Schedule 5, consistent with the SEHK's level playing field principle. This means that as from December 2015 year ends onwards, overseas issuers listed in Hong Kong have also been required to include a business review in their directors' report.

At the invitation of the Companies Registry, the HKICPA has issued Accounting Bulletin 5 to provide guidance on the preparation and presentation of the business review. Our publication "A practical guide to the business review (May 2015)", which provides further guidance applicable to listed companies, can be obtained at www.kpmg.com/cn/hk-companies-ordinance. Our business review disclosure checklist, which helps listed companies ensure that the minimum requirements of Schedule 5 and the MBLRs are met and includes checkpoints to cover the guidance in Accounting Bulletin 5, can be obtained from your usual KPMG contact.

7 Section 388 and Schedule 5 to the CO requires the business review to be included in the directors' report. According to the response to Question 8 in the HKICPA's Q&A series on the CO (in the sub-section "Part A Directors' report" under the category "other than those relating to transition from the predecessor Ordinance (Cap. 32)"), this requirement can be met by including a cross reference in the directors' report to where this review is located if it is included elsewhere in the annual report. For example, given the similarities between the requirements of Schedule 5 and paragraphs 32 and 52 of Appendix 16 to the MBLRs, the requirements of Schedule 5 can be met by including a cross reference in the directors' report to where the MD&A is found, provided that:

- the cross reference is clear and it is clearly stated that the cross referenced part of the annual report forms part of the directors' report; and
- the discussion and analysis found in that MD&A is sufficient to meet the minimum content requirements of Schedule 5.

The cross reference illustrated here is made with reference to the example statement in Q&A 8. The HKICPA's Q&A series on the CO can be found in the HKICPA's website at www.hkicpa.org.hk/en/standards-and-regulations/standards/new-co.

Major customers and suppliers

A16(31) *The information in respect of the group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:*

		Percentage of the group's total	
		Sales	*Purchases*
A16(31)(3)	*The largest customer*	*[•]%*	
A16(31)(4)	*Five largest customers in aggregate*	*[•]%*	
A16(31)(1)	*The largest supplier*		*[•]%*
A16(31)(2)	*Five largest suppliers in aggregate*		*[•]%*

A16(31)(5) *At no time during the year have the directors, their associates or any shareholder of the company (which to the knowledge of the directors owns more than 5% of the number of issued shares of the company) had any interest in these major customers and suppliers[8].*

Recommended dividend[9]

C(DR)R.7 An interim dividend of 30 cents per share (2016: 30 cents per share) was paid on 18 September 2017. The directors now recommend the payment of a final dividend of 60 cents per share (2016: 55 cents per share) in respect of the year ended 31 December 2017.

CP

Change of company's name[10]

By a special resolution passed on 10 January 2018, the name of the company was changed from Model Electronics Company Limited to HK Listco Ltd and the company adopted the Chinese name 香港上市有限公司 as part of its legal name.

Charitable donations

C(DR)R.4 Charitable donations made by the group during the year amounted to HK$[•] (2016: HK$[•])[11].

A16(31)(5) 8 Under paragraph 31(5) of Appendix 16 to the MBLRs, a listed issuer is required to give a statement of interests in the five largest suppliers or customers of:
- any shareholder which to the knowledge of the directors own more than 5% of the number of issued shares of the listed issuer,
- any of the directors; or
- any of the directors' close associates.

A negative statement is required when there are no such interests.

C(DR)R.7 9 Section 7 of Companies (Directors' Report) Regulation (Cap. 622D) requires companies to disclose the amount of dividends recommended by the directors for the financial year in the directors' report. Although not required, negative statement explaining that no dividend is recommended for the year is best practice.

HKAS 1.51(a) 10 Disclosure of change of company's name is optional in the directors' report, but should be in any event prominently displayed and repeated when it is necessary for a proper understanding of the information presented.

C(DR)R.4 11 The disclosure requirements in respect of donations do not apply if the entity is a wholly owned subsidiary of a company incorporated in Hong Kong. Furthermore, donations are not required to be disclosed if the total amount of donations made by the company (or the group if the company has subsidiaries) during the year is less than $10,000.

Share capital[12]

C(DR)R.5 Details of the movements in share capital of the company during the year are set out in note 32(c) to the financial statements. Shares were issued during the year on exercise of share options and bonus issue. Details about the issue of shares are also set out in note 32(c) to the financial statements.

A16(10)(4)
R10.06(4)(b) *Except for the repurchase of the company's own ordinary shares as set out in note 32(c)(iii) to the financial statements, there were no purchases, sales or redemptions of the company's listed securities by the company or any of its subsidiaries during the year. Shares were repurchased during the year to reduce the dilutive effect of granting share options.*

Distributability of reserves[13]

A16(29) *At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance and including the distributable amounts disclosed in note 32(d)(iii) to the financial statements[14], was $203,813,000 (2016: $168,369,000).* After the end of the reporting period the directors proposed a final dividend of 60 cents per ordinary share (2016: 55 cents per share), amounting to $59,700,000 (2016: $49,500,000) (note 32(b)). This dividend has not been recognised as a liability at the end of the reporting period.

S390(1), (3)

Directors

The directors during the financial year were:

Non-executive Chairman

Hon WS Tan

Executive directors

SK Ho, Chief Executive Officer
YK Ng

C(DR)R.5, 5A [12] C(DR)R section 5 requires to disclose the following information in the directors' report if the company has issued any shares during the year:

- the reason for making the issue;
- the classes of shares issued; and
- for each class of share, the number of shares issued and the consideration received by the company for the issue.

Section 5A of C(DR)R requires similar disclosures for issue of debentures.

A16(29) [13] Paragraph 29 of Appendix 16 to the MBLRs requires a listed issuer to include a statement of the reserves available for distribution to shareholders in its annual report. In the case of a Hong Kong incorporated issuer, the amount should be calculated with reference to the requirements of sections 291, 297 and 299 of Part 6 of the CO. In all other cases, paragraph 29 states that the amount should be calculated in accordance with any statutory provisions applicable in the listed issuer's place of incorporation or, in the absence of such provisions, with generally accepted accounting principles.

[14] Part 6 of the new CO "Distribution of profits and assets" contains provisions that deal with distribution of profits and assets by a Hong Kong incorporated company to its members and came into operation on 3 March 2014. Since the provisions of Part 6 are closely based on the equivalent requirements of the predecessor Companies Ordinance (Cap. 32), the application of Part 6 generally does not impact the amount of the reserves available for distribution compared to before 3 March 2014. For example, under section 292(5) of the new CO, property revaluation reserve can be treated as realised to the extent that depreciation charged to the statement of profit or loss/the statement of profit or loss and other comprehensive income on revalued assets exceeds the amount that would have been charged based on the historical cost of those assets. This is consistent with the previous requirements in section 79K(2) of the predecessor Companies Ordinance.

In May 2010, the HKICPA issued Accounting Bulletin 4 to provide further guidance on calculating distributable profits under the predecessor Companies Ordinance. As the requirements under the predecessor Companies Ordinance have been brought forward largely unchanged to the new CO, the guidance in Accounting Bulletin 4 continues to be applicable under the new CO.

PK Smith (alternate: BB Nash)
CJ Wang (appointed on 18 June 2017)
BC Tong (resigned on 31 March 2017)

Independent non-executive directors

TY Sham
YH Li
AC Man

The following directors were appointed after the end of the financial year[15]:

AB Clark (appointed on 25 March 2018)
EF Graves (appointed on 25 March 2018)

A full list of the names of the directors of the group's subsidiaries can be found in the company's website at www.hk_listco.com.hk under "About HK Listco/Board of Directors".[16]

CP Messrs CJ Wang, AB Clark and EF Graves, having been appointed to the board since the date of the last annual general meeting, retire at the forthcoming annual general meeting in accordance with article 87 of the company's articles of association and, being eligible, offer themselves for re-election.

CP In accordance with article 88 of the company's articles of association, Mr PK Smith retires from the board by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

A16(14) *No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.*

S390(1)(a)(ii) 15 The new CO extended the disclosure of directors' names to the date of approving the directors' report. This means that the names of directors appointed after the financial year end but before the approval of directors' report should also be disclosed.

S390(1), (3) 16 In addition to disclosing the names of the directors of the company, under the new CO the directors' report of a Hong Kong incorporated company is now required to disclose the names of the directors of all subsidiaries included in the consolidated financial statements, if the company has prepared consolidated financial statements. Subsidiaries "included" in the consolidated financial statements refers to subsidiaries that have been consolidated in the financial statements (ref: Q&A 3.3 in the HKICPA's Q&A series in Topic 3 "Subsidiary undertakings that are not controlled by the reporting entity under HKFRS 10" under the category "consolidated and company level financial statements prepared under Part 9 of the CO").

In respect of this requirement, the Companies Registry has offered some relief by permitting the following practical approaches for companies to follow:

- The disclosure of the names of any persons who are directors of any of the subsidiaries may be given in aggregate, rather than company-by-company; and
- If the number of names of directors of subsidiaries is, in the opinion of the directors of the holding company, of excessive length, then the directors' report may include a cross reference to an accessible location where the list of directors of the subsidiaries can be found in full (e.g. by providing a link to the relevant website location which contains a full list of the names), instead of including all those names in the directors' report itself.

This relief, however, does not apply to the requirement to disclose the names of the directors of the holding company, which must still be provided in full in the directors' report.

HK Listco has applied this relief by giving a cross reference to its website where the full list of names of directors can be found.

So far as non-Hong Kong incorporated issuers are concerned, the requirement to disclose the names of the directors of subsidiaries has been explicitly excluded from the level playing field requirements in the Listing Rules. Therefore, non-Hong Kong incorporated issuers are only required to disclose the names of directors of the holding company. This departure from the level playing field principle is explicitly stated in a footnote to paragraph 28 of Appendix 16 to the MBLRs and Rule 18.07A of the GEM Listing Rules.

A16(13)(1)

Directors'[17] interests and short positions in shares, underlying shares and debentures

A16(13)(2)
PN5(3.2) &
(3.3)(1)

The directors of the company who held office at 31 December 2017 had the following interests in the shares of the company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

(i) Interests in issued shares

	Ordinary shares					
	Personal interests (Note 1)	*Family interests*	*Corporate interests*	*Trustee interests*	*Total number of shares held*	*% of total issued voting shares*
Beneficial Interests						
HK Listco Ltd						
Hon WS Tan	*650,000*	*250,000 (Note 2)*	*52,410,000 (Note 3)*	*-*	*53,310,000*	*53.0%*
PK Smith	*800,000*	*-*	*52,410,000 (Note 3)*	*-*	*53,210,000*	*52.9%*
CJ Wang	*300,000*	*-*	*-*	*-*	*300,000*	*0.3%*
HK (Holding) Co. Ltd						
Hon WS Tan (Note 3)	*420,000*	*-*	*-*	*-*	*420,000*	*42.0%*
PK Smith (Note 3)	*380,000*	*-*	*-*	*-*	*380,000*	*38.0%*
BB Trading Ltd						
Hon WS Tan	*-*	*5,000 (Note 2)*	*-*	*-*	*5,000*	*0.5%*
PK Smith	*3,000*	*-*	*-*	*-*	*3,000*	*0.3%*
Timing Trading Ltd						
CJ Wang	*2,000*	*-*	*-*	*-*	*2,000*	*20.0%*
Non-beneficial Interests						
HK Listco Ltd						
YK Ng	*-*	*-*	*-*	*90,000 (Note 4)*	*90,000*	*0.1%*

PN5(3.2)

Notes:

1 *The shares are registered under the names of the directors who are the beneficial shareholders.*

2 *The spouse of Hon WS Tan is the beneficial shareholder.*

PN5(4)

3 *Hon WS Tan and Mr PK Smith are beneficial shareholders of 42% and 38% respectively of the issued shares of HK (Holding) Co. Ltd which owned 52,410,000 shares in the company at 31 December 2017.*[18]

4 *Mr YK Ng is one of the trustees of HK Listco Pension Scheme which owned 90,000 shares in the company at 31 December 2017.*[19]

(ii) Interests in underlying shares

The directors of the company have been granted options under the company's share option scheme, details of which are set out in the section "Equity-linked agreements – Share option scheme" below.

A16(13)(1) [17] This disclosure should be extended to include disclosure of the chief executive's interests, to the same extent as is disclosed for the directors, where the chief executive is not a member of the board.

PN5(3.2)
PN5(4) [18] Where the corporation holding the interest or short position is not wholly-owned by the person/corporation making the disclosure, the percentage interest held by such person/corporation in that corporation should be disclosed. Where there is any duplication between the interests, the extent of this duplication should be clearly stated.

[19] Note that sections 25 and 27 of the Hong Kong Occupational Retirement Scheme Ordinance contain provisions which restrict the extent to which (a) an employee of the relevant employer can be a trustee of a registered scheme and (b) a registered scheme can hold shares in the relevant employer. Similar restrictions may also exist in overseas jurisdictions.

A16(13)(1) *Apart from the foregoing, none of the directors of the company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the company pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.*

C(DR)R.6

Equity-linked agreements[20]

Details of the equity-linked agreements entered into during the year or subsisting at the end of the year are set out below:

A16(10)(1)& (2)
C(DR)R.6(2)

Convertible notes

On 31 December 2014, the company issued 2 tranches, Tranche A and B, of 5,000,000 convertible notes. Each tranche has a face value of HK$5,000,000 and a maturity date of 31 December 2019. The notes bear interest at [•]% per annum and are unsecured.

The rights of the noteholders to convert the notes into ordinary shares are as follows:

- Conversion rights are exercisable at any time up to maturity at the noteholders' option.
- If a holder of Tranche A notes exercises its conversion rights, the company is required to deliver ordinary shares at a rate of one ordinary share for every 20 notes converted.
- If a holder of Tranche B notes exercises its conversion rights, the company has the right to choose whether to deliver ordinary shares at a rate of one ordinary share for every 20 notes converted, or whether to settle in cash at an amount equal to the fixed number of shares under the conversion option multiplied by the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the [•] days immediately preceding the date of conversion.

Notes of either tranche, in respect of which conversion rights have not been exercised, will be redeemed at face value on 31 December 2019.

C(DR)R.6

20 The new CO introduced new disclosure requirements for "equity-linked agreements", which are defined in section 6(3) of the C(DR)R to mean an agreement that will (or may) result in a company issuing shares, or an agreement requiring the company to enter into such agreement (such as, granting (or agreeing to grant) options to subscribe for shares, issuing convertible bonds, setting up a share option scheme or an employee share scheme).

The disclosures required for agreements entered into during the year and agreements still subsisting at the end of the year (e.g. if the options are unexercised) are as follows:

Equity-linked agreements entered into during the year:
- the reason for entering into the agreement;
- the nature and terms of the agreement, including if applicable:
  - the conditions that must be met before the company issues any shares;
  - the conditions that must be met before a third party may require the company to issue any shares; and
  - any monetary or other consideration that the company has received or will receive under the agreement.
- the classes of shares issued under the agreements; and
- for each class of shares, the number of shares that have been issued under agreement.

Equity-linked agreements subsisting at the end of the year:
- the classes of shares that may be issued under the agreement;
- for each class of shares, the number of shares that may be issued under the agreement;
- any monetary or other consideration that the company has received or will receive under the agreement; and
- any other conditions or terms that remain to be met before the shares are issued.

In addition to the above disclosures required by the CO, listed issuers are also subject to the requirements in Chapter 17 of the MBLRs and paragraphs 6.3 and 10 of Appendix 16 to the MBLRs to provide disclosures about share options, warrants, convertible securities and similar rights.

A16(6):Note 6.3(j) R17.09 C(DR)R.6(2)

Share option scheme

The company has a share option scheme which was adopted on 1 March 2013 whereby the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options to subscribe for ordinary shares of the company. *The purpose of the scheme is to provide an opportunity for employees of the group to acquire an equity participation in the company and to encourage them to work towards enhancing the value of the company and its shares for the benefit of the company and its shareholders as a whole. The share option scheme shall be valid and effective for a period of ten years ending on 28 February 2023, after which no further options will be granted.*

The exercise price of options is the highest of the nominal value of the shares (if any), the closing price of the shares on The Stock Exchange of Hong Kong Limited on the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant[21]*.* The options vest after one year from the date of grant and are then exercisable within a period of two years.

The total number of securities available for issue under the share option scheme as at 31 December 2017 was 8,000,000 shares (including options for 6,000,000 shares that have been granted but not yet lapsed or exercised) which represented 8% of the ordinary shares of the company in issue at 31 December 2017. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to [•]% of the company's ordinary shares in issue.

C(DR)R.3 A16(13)(2) R17.07 PN5(3.2)&(3.3)(1)

At 31 December 2017, the directors and employees of the company had the following interests in options to subscribe for shares of the company (market value per share at 31 December 2017 was HK$6.70) granted for nil consideration under the share option scheme of the company[22]. As at 31 December 2017, the total grant date fair value of unexercised vested options and unvested options, measured in accordance with the accounting policy set out in note 1(w) to the financial statements, amounted to $3,450,000 and $100,000, respectively[23]. The options are unlisted. Once vested, each

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R17.10 [21] Chapter 17 of the MBLRs requires the disclosure of the basis of determining the exercise price under the terms of the share option scheme. This would include separate disclosure of the bases adopted before and after 1 September 2001 if the bases differed and the scheme adopted before 1 September 2001 was still in existence.

R17.07 [22] The information set out in the table on page 19 is required to be disclosed in relation to each of the issuer's directors, chief executive and substantial shareholders. Where there are also share options granted to suppliers of goods or services and any other participants, the information set out in the table is required to be disclosed in relation to the aggregate figures for (i) suppliers of goods or services and (ii) all other participants.

R17.07 Furthermore, where shares issued and to be issued upon exercise of options granted to a single participant are in excess of the maximum entitlement for each participant under the MBLRs that can be issued without additional shareholder approval (see Rule 17.03(4)), the information set out in the table is also required to be disclosed in relation to this particular participant.

C(DR)R.6(2)(c) [23] C(DR)R section 6(2)(c) requires the disclosure of any monetary or other consideration that the company "has received or will receive" under the equity-linked agreements subsisting at the end of the year. In respect of share options and warrants the consideration that the company "has received or will receive" typically comprises two components:

a) the premium paid (or payable) when the option or warrant was issued; and
b) the strike price i.e. the amount that the option/warrant holder would pay if they choose to exercise their rights to subscribe for shares.

In respect of share option schemes which fall under HKFRS 2, the premium paid or payable (i.e. component (a)) comprises the fair value of the goods or services that will be received from the grantee in exchange for the grant, in addition to any other consideration provided by the grantee (often any other consideration is just a nominal amount). Therefore, to satisfy the CO disclosure requirement it will be necessary to disclose the grant date fair value of any unexercised options, as the best estimate that the entity has of the "other consideration" that has been or will be provided by the grantee. This information will be available in the accounting records but will generally not already be disclosed in the financial statements as the grant date fair value information is only discloseable under HKFRS 2 in the year of the grant, whereas the CO requirement is to disclose the amount of consideration that has been or will be received in respect of any equity-linked arrangements that are subsisting at the year end. This is in addition to disclosing how much would be received if those options were exercised.

option gives the holder the right to subscribe for one ordinary share of the company. Assuming that all the options outstanding as at 31 December 2017 are exercised, the company will receive proceeds of $36,250,000[23].

	No. of options outstanding at the beginning of the year	*No. of options granted during the year*	*No. of shares acquired on exercise of options during the year*	*No. of options forfeited during the year*	*No. of options outstanding at the year end*	*Date granted*	*Period during which options are exercisable*	*Exercise price per share*	*Market value per share at date of grant of options**	*Market value per share on exercise of options**
Directors										
YK Ng	*200,000*	*-*	*(200,000)*	*-*	*-*	*1 November 2014*	*1 November 2015 to 31 October 2017*	*HK$6.0*	*HK$6.0*	*HK$6.6*
	500,000	*-*	*(500,000)*	*-*	*-*	*1 July 2016*	*1 July 2017 to 30 June 2019*	*HK$6.0*	*HK$6.0*	*HK$6.6*
PK Smith	*800,000*	*-*	*(300,000)*	*-*	*500,000*	*1 July 2016*	*1 July 2017 to 30 June 2019*	*HK$6.0*	*HK$6.0*	*HK$6.6*
BC Tong	*200,000*	*-*	*-*	*(200,000)*	*-*	*1 July 2016*	*1 July 2017 to 30 June 2019*	*HK$6.0*	*HK$6.0*	*-*
Employees	*5,000,000*	*-*	*-*	*-*	*5,000,000*	*1 July 2016*	*1 July 2017 to 30 June 2019*	*HK$6.0*	*HK$6.0*	*-*
	-	*500,000*	*-*	*-*	*500,000*	*1 May 2017*	*1 May 2018 to 30 April 2020*	*HK$6.5*	*HK$6.5*	*-*

The options granted to the directors are registered under the names of the directors who are also the beneficial owners.

R17.07(3) * *being the weighted average closing price of the company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.*

R17.08 *Information on the accounting policy for share options granted and the weighted average value per option[24] is provided in note 1(w)(iii) and note 29 to the financial statements respectively.*

CP Apart from the foregoing, at no time during the year was the company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement 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[25].

R17.08 [24] According to Rule 17.08 of the MBLRs, entities listed on the Main Board of the SEHK are encouraged to disclose in their annual report the value of options granted during the financial year and the accounting policy adopted for the share options. However, as these disclosures are also required by HKFRS 2, *Share-based payment*, they have been included as part of HK Listco's annual financial statements instead of in the directors' report.

Notes to Rule 17.08 set out details on how the options should be valued. Where the listed issuer considers that disclosure of the value of options granted is not appropriate, the reason for such non-disclosure should be made.

C(DR)R.3 [25] The disclosure above illustrates the information required to be disclosed to meet both the requirements of the C(DR)R and the MBLRs. Unlisted companies need only comply with the requirements of the C(DR)R which, in addition to the disclosure requirements relating to "equity-linked agreements" introduced in footnote 20, include the disclosure requirements in section 3 of the C(DR)R relating to arrangements "whose objects are, or one of whose objects is, to enable directors of the company to acquire benefits by means of the acquisition of shares on, or debentures of, the company or any other body corporate". Therefore, if the directors are a party to the equity-linked agreements disclosed under C(DR)R section 6 (see footnote 20) or other arrangements involving debentures, and these agreements could be said to have arisen under arrangements "whose objects are, or one of whose objects is, to enable directors of the company to acquire benefits by means of acquisitions in the shares of the company or any other body corporate", then the company (whether listed or not), will need to disclose a statement explaining the effect of these arrangements and the names of the directors who held shares or debentures acquired under those arrangements in order to satisfy both section 6 and section 3 of the C(DR)R.

Although not required, a negative statement explaining that no such arrangement exists is best practice.

Substantial shareholders' and other persons'[26] interests and short positions in shares and underlying shares

A16(13)(3) PN5(3.2), (3.4)(1) & (3.5)(1)

The company has been notified of the following interests in the company's issued shares at 31 December 2017 amounting to 5% or more of the ordinary shares in issue:

	Ordinary shares			
	Registered shareholders	*Corporate interests*	*Total number of ordinary shares held*	*% of total issued voting shares*
Substantial shareholders				
Safety International Holdings Ltd	-	*11,750,000 (Note)*	*11,750,000*	*11.69%*
Safety Company Ltd (Note)	*11,750,000*	-	*11,750,000*	*11.69%*
HK (Holding) Co. Ltd	*52,410,000*	-	*52,410,000*	*52.15%*
Other persons				
Modern Trading Ltd	*7,537,500*	-	*7,537,500*	*7.50%*

PN5(4)

Note: The register of interests in shares and short positions kept under section 336 of the SFO indicates that the interest disclosed by Safety International Holdings Ltd is the same as the 11,750,000 shares disclosed by Safety Company Ltd, its 100% owned subsidiary[18 on page 16]. Apart from the foregoing, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the company.

Sufficiency of public float

A16(34A)

Based on the information that is publicly available to the company and within the knowledge of the directors of the company as at the date of this annual report, the company has maintained the prescribed public float under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

Indemnity of directors

C(DR)R.9

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the company is currently in force and was in force throughout this year. [27]

Directors' interests in transactions, arrangements or contracts

A16(15)

No transaction, arrangement or contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.[28]

R1

26 "Substantial shareholders" are persons (including holders of depositary receipts other than depositaries) who are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the company. Note that this definition is modified in the case of Rule 14A, *Equity securities - Connected Transactions* of the MBLRs by the provision of rule 14A.29.

PN5(3.1)

"Other persons" are persons who are required pursuant to Part XV of the Securities and Futures Ordinance to notify the company of their interests and short positions in the company's shares and underlying shares, but who are not substantial shareholders, directors or chief executives of the company.

C(DR)R.9

27 Companies are required to disclose "permitted indemnity provisions", which are defined as a provision that provides for indemnity against liability incurred by a director of the company to a third party and meets the requirements specified in section 469(2) of the CO. When a permitted indemnity provision is in force when the directors' report is approved or was in force at any time during the financial year, companies are required to include a statement in the directors' report to state this fact.

Bank loans and other borrowings

A16(22) *Particulars of bank loans and other borrowings of the group as at 31 December 2017 are set out in notes 25 to 27 to the financial statements.*

Five year summary

A16(19) *A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on pages 167 and 168 of the annual report.*

Properties

A16(23) *Particulars of the major properties and property interests of the group are shown on page 166 of the annual report.*

Retirement schemes

A16(26) *The group operates two defined benefit retirement schemes which cover [●]% of the group's employees, and a Mandatory Provident Fund scheme. Particulars of these retirement schemes are set out in note 28 to the financial statements.*

Confirmation of independence

A16(12B) *The company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.*

C(DIBD)R.22
C(DR)R.10

[28] Under the predecessor Hong Kong Companies Ordinance (Cap. 32), directors' material interests in significant contracts were required to be disclosed in the directors' report. The new CO retained and expanded this disclosure requirement to cover "transactions, arrangements or contracts" (rather than simply "contracts"). Besides, it split the requirement such that:

- if the transaction, arrangement or contract relates to the company, then it is now required to be disclosed in the financial statements (section 383(1)(e) and C(DIBD)R section 22); whereas

- if the transaction, arrangement or contract relates to the company's parent, subsidiary or fellow subsidiary (collectively referred to as "specified undertakings" in the CO), then it is still required to be disclosed in the directors' report (C(DR)R section 10).

A similar requirement to disclose directors' material interests in significant transactions, arrangements or contracts is found in paragraph 15 of Appendix 16. Paragraph 15 specifically requires a negative statement when there are no such interests to be disclosed, and it has been a common practice for non-listed companies to also make such a statement.

If there have been no such transactions, arrangements or contracts, then a negative statement covering both categories of transactions (i.e. including those involving the company and those involving the company's specified undertakings) can continue to be included in the directors' report as illustrated.

If there have been such transactions, arrangements or contracts involving directors of the company, care needs to be taken to ensure that they are disclosed in the correct location in the annual report. Giving a modified negative statement with reference to where the disclosures may be found is best practice. An example of such a modified negative statement is given below, which assumes that the directors had material interests in significant transactions etc involving the company as well as having interests in transactions etc involving other group companies:

[Disclose details of any transaction, arrangement or contract of significance to which any of the company's holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest]

Apart from [the above] [and] [the details disclosed in note xx to the financial statements], no transaction, arrangement or contract of significance to which the company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Auditors

A16(30) *KPMG were first appointed as auditors of the company in 2015 upon the retirement of Wood & Co*[29].

CP KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.[30]

By order of the board

S391 F. Cullen[31]
Secretary

28 March 2018

A16(30) 29 Disclosure of a statement of any change in auditors in any of the preceding three years is required under the MBLRs.

30 Disclosure of such information relating to auditors is optional, but commonly done.

S391(2) 31 Section 391(2) of the CO requires the directors' report to state the name of the director or company secretary who signed the directors' report on the directors' behalf.

S405
HKSA
700.21 & 22

CP

Independent auditor's report to the members of HK Listco Ltd[32]

(Incorporated in Hong Kong with limited liability)[33]

S406
HKSA
700.23 & 24

Opinion

We have audited the consolidated financial statements of HK Listco Ltd ("the company") and its subsidiaries ("the group") set out on pages 29 to 165, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss[34], the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position[35] of the group as at 31 December 2017 and of its consolidated financial performance[35] and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

HKSA
700.28

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

HKSA
700.30

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Heading: name the specific key audit matter*][36]	
Refer to notes [...] to the consolidated financial statements and the accounting policies on page [...].	
The Key Audit Matter	**How the matter was addressed in our audit**
[*description*] We identified [*name of specific key audit matter*] as a key audit matter because […]	Our audit procedures to […] included the following: • …

[32] The auditor’s report illustrated here is prepared with reference to Illustration 2 of the Appendix to HKSA 700 (Revised), *Forming an opinion and reporting on financial statements*. HKSA 700 (Revised) is effective for audits of financial statements for periods ending on or after 15 December 2016. Please talk to your usual KPMG contact if you would like further guidance on HKSA 700 (Revised).

[33] In Hong Kong, it is common practice to disclose the place of incorporation of the company in the auditor’s report.

The auditor’s report illustrated here is suitable for Hong Kong incorporated companies preparing consolidated financial statements. Example auditor’s reports for PRC, Cayman Islands and Bermuda incorporated companies listed in Hong Kong are included at the end of Appendix E to this Guide.

HKSA 700.24(c)
HKAS 1.10A

[34] Paragraph 24(c) of HKSA 700 (Revised) requires the title of each of the statements that comprise the complete set of financial statements be identified in the opinion section of the auditor’s report. As HK Listco Ltd has chosen to present income and expenses using a two-statement format, i.e. by presenting both a consolidated statement of profit or loss and a consolidated statement of profit or loss and other comprehensive income (see footnote 41 on page 28 to these illustrative financial statements), the opinion section of the auditor’s report has identified both the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as parts of the complete set of financial statements.

S406

[35] Section 406 of the CO specifically requires the terms “financial position” and “financial performance” to be used in statement of the auditor’s opinion.

So far as non-Hong Kong incorporated companies are concerned, although not required, they may also adopt the terminology to be in line with the Hong Kong market, unless there is wording to the contrary in the company law of their country of incorporation.

HKSA 700.30

[36] For audits of complete sets of general purpose financial statements of listed entities, the auditor is required to describe key audit matters in the auditor's report in accordance with HKSA 701, *Communicating key audit matters in the independent auditor's report*. “Key audit matters” are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

The auditor should describe each key audit matter by using an appropriate subheading and by including the following information:

- a reference to any related financial statement disclosures;
- an explanation as to why the matter was considered to be of most significance in the audit; and
- a description how the matter was addressed in the audit.

HKSA 700.32
HKSA 720.21 & 22

Information other than the consolidated financial statements and auditor's report thereon[37]

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

HKSA 700.33-36

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the group's financial reporting process.

HKSA 700.37-40

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not

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[37] The wording illustrated here is only appropriate when the auditor has obtained all of the other information at least in draft format prior to the date of the auditor's report and has not identified a material misstatement in the other information. If the auditor has in fact only obtained part or none of the other information prior to the date of the auditor's report, then the wording will need to be modified to describe this fact. Please talk to your usual KPMG contract if you would like further information about this new requirement.

In addition, the wording illustrated here should be modified in the following unusual situations:

(a) if the auditor's report contains an unmodified opinion but auditor concludes that a material misstatement of the other information exists; or

(b) if the auditor's report contains a qualified opinion due to a limitation of scope / adverse opinion on the financial statements which also affects the other information.

Illustrative wording for such situations can be found in Illustrations 5 to 8 of HKSA 720 (Revised).

assume responsibility towards or accept liability to any other person for the contents of this report.[38]

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related

[38] In May 2003, the HKICPA issued a Professional Risk Management Bulletin No.2, Auditors' duty of care to third parties and the audit report ("the Bulletin"), recommending to its practising members revised wording for the statement of auditor's responsibilities in statutory audit reports. The purpose of the revised statement of responsibilities is to clarify that the auditor's duty of care and responsibilities are owed under the Hong Kong Companies Ordinance to the shareholders, as a body, and not to third parties. It does not change the duty and responsibilities of auditors under the Hong Kong Companies Ordinance. Our firm follows the recommendation in the Bulletin and adopts the revised statement in our reports.

safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

HKSA 700.46 The engagement partner on the audit resulting in this independent auditor's report is [*partner's name as appearing on his/her Practising Certificate*]. [39]

HKSA 700.47 KPMG
Certified Public Accountants
HKSA 700.48 8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

HKSA 700.49 28 March 2018

HKSA 700.46 [39] The name of the engagement partner shall be included in the auditor's report on the financial statements of listed entities.

HKAS 1.8, 10, 10A

40 In these illustrative financial statements, HK Listco uses the titles "Statement of profit or loss" and "Statement of profit or loss and other comprehensive income", which are the titles used in HKAS 1. However, as allowed by paragraph 10 of HKAS 1, entities may use other titles for the statements. For example, the entity may use the titles "Income statement" and "Statement of comprehensive income". ,

Similarly, although HKAS 1 uses the terms "other comprehensive income", "profit or loss" and "total comprehensive income", entities may use other terms to describe the totals as long as the meaning is clear. For example, the entity may use the term "net income" to describe profit or loss.

Whatever titles and terms are used, care should be taken to ensure that they are used consistently throughout the financial statements.

HKAS 1.106

41 HKAS 1 requires to separate the presentation of non-owner changes in equity (i.e. items of income and expense) from owner changes in equity (i.e. all other changes in equity, such as from capital injections or dividends paid).

HKAS 1.7, 81A-82A

For non-owner changes in equity, the standard uses the term "total comprehensive income" to refer to all items of income and expense, whether or not recognised in profit or loss. HKAS 1 allows a choice of format for disclosing comprehensive income between either:

(i) presenting a statement of profit or loss to arrive at "profit or loss", and then immediately afterwards presenting a statement of profit or loss and other comprehensive income which begins with "profit or loss" for the period (as derived from the statement of profit or loss) and then presents all other items of comprehensive income (such as changes in revaluation surplus on property, plant and equipment under paragraphs 39 and 40 of HKAS 16, *Property, plant and equipment*) in order to arrive at "total comprehensive income"; or

(ii) presenting all items of total comprehensive income in a single statement of profit or loss and other comprehensive income.

In these illustrative financial statements HK Listco Ltd has opted for the two-statement approach.

HKAS 1.113

42 Each item on the face of the statement of profit or loss shall be cross-referenced to any related information in the notes.

HKAS 1.30A, 85

HKAS 1 states that an entity should take into consideration all relevant facts and circumstances in deciding how it aggregates information in the financial statements. The entity should not reduce the understandability of the financial statements by aggregating material items that have different natures or functions. In some situations, the entity may need to disaggregate the line items in the statement of financial position and the statement of profit or loss and other comprehensive income as listed in HKAS 1 to improve the understandability of the financial statements. On the other hand, the entity need not disclose information which is considered immaterial, even though the information is specifically required by an HKFRS or is described as "minimum requirement".

HKAS 1.85A-85B

HKAS 1 also requires that when an entity presents additional subtotals (i.e. in addition to those specifically required by HKFRS) in the statement of financial position and statement of profit or loss and other comprehensive income, it should also present line items that reconcile those additional subtotals with the subtotals or totals required by HKFRS.

HKAS 1.99

43 The analysis of expenses can be shown either on the face of the statement of profit or loss, (or the statement of profit or loss and other comprehensive income if a separate statement of profit or loss is not presented), or in the notes. The analysis presented here is referred to as the "function of expense" or "cost of sales" method (paragraph 103 of HKAS 1). The analysis could alternatively be presented using a classification based on the nature of expenses (paragraph 102 of HKAS 1).

HKAS 1.45 & 85

44 Neither HKAS 1 nor HKAS 40, *Investment property*, prescribes where movements in the fair value of investment property should be presented on the face of the statement of profit or loss/the statement of profit or loss and other comprehensive income, nor whether they should be separately presented from other items of income and expense. However, once a form of presentation has been adopted by an entity, it should be followed consistently from one period to the next unless it is apparent that another presentation would be more appropriate.

HKAS 1.82(b)

45 In accordance with paragraph 82(b) of HKAS 1, finance costs are required to be disclosed as a separate item on the face of the statement of profit or loss/the statement of profit or loss and other comprehensive income. This amount should be stated gross, i.e. it should not be net of finance income, although in our view an additional line item for "net finance costs" would be acceptable.

HKAS 1.10A & 51
A16(4)(1)

Consolidated statement of profit or loss[40, 41, 42,] for the year ended 31 December 2017

HKAS 1.113

(Expressed in Hong Kong dollars)

		Note	2017	2016
HKAS 1.51(e)			**$'000**	$'000
HKAS 1.82(a)	**Revenue**	3	**1,084,895**	985,240
HKAS 1.99	Cost of sales[43]		**(808,507)**	(733,575)
HKAS 1.85	**Gross profit**		**276,388**	251,665
HKAS 1.85	Valuation gains on investment property		**22,980**	8,520
HKAS 1.85	Valuation losses on investment property		**(4,720)**	(2,000)
HKAS 1.85	**Net valuation gain on investment property[44]**	11	**18,260**	6,520
HKAS 1.85	Other income	4	**10,448**	11,652
HKAS 1.99	Distribution costs[43]		**(62,619)**	(57,028)
HKAS 1.99	Administrative expenses[43]		**(83,690)**	(81,656)
HKAS 1.99	Other operating expenses[43]		**(17,493)**	(13,561)
	Profit from operations		**141,294**	117,592
HKAS 1.82(b)	Finance costs[45]	5(a)	**(16,536)**	(12,689)
HKAS 28.38 HKAS 1.82(c)	Share of profits less losses of associates		**13,830**	12,645
	Share of profits of joint venture		**10,670**	10,135
	Profit before taxation	5	**149,258**	127,683
HKAS 1.82(d) HKAS 12.77	Income tax	6(a)	**(24,475)**	(21,335)
HKAS 1.81A(a)	**Profit for the year**		**124,783**	106,348
HKAS 1.81B(a)	**Attributable to:**			
	Equity shareholders of the company		**114,367**	96,181
HKFRS 10.B94	Non-controlling interests		**10,416**	10,167
HKAS 1.81A(a)	**Profit for the year**		**124,783**	106,348
HKAS 33.66	***Earnings per share[46]***	10		
	Basic		***$1.15***	*$0.97*
	Diluted		***$1.14***	*$0.97*

A16(4)(3)

The notes on pages 38 to 165 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 32(b)[47].

HKAS 33.4, 4A & 66

46 As stated in footnote 41 on page 28, HKAS 1 allows entities to present comprehensive income using either a one-statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). HKAS 33, *Earnings per share*, requires the presentation of basic and diluted earnings per share in the separate statement of profit or loss if such a statement is presented or in the statement of profit or loss and other comprehensive income if an entity opts for the single-statement approach.

In addition, where the entity has reported amounts relating to discontinued operations, basic and diluted earnings per share amounts should be disclosed in the relevant statement for both (a) profit or loss from continuing operations attributable to the parent entity and (b) profit or loss attributable to the parent entity (i.e. profit or loss including discontinued operations). Also, all these disclosures shall be made separately for each class of ordinary share that has a different right to share in profit for the period.

HKAS 1.IN16, 107, BC75

47 HKAS 1 does not permit an entity to disclose the amount of dividends to equity owners in either the statement of profit or loss or the statement of profit or loss and other comprehensive income. Instead, as such dividends are an owner change in equity, they are required to be reported in the statement of changes in equity or in the notes. However, as it has been common place to refer to dividends in the statement of profit or loss, we expect that users will find useful a cross reference, such as is illustrated here, to where details of the dividends can be found in the financial statements.

HKAS 1.113

48 Each item on the face of the statement of profit or loss and other comprehensive income shall be cross-referenced to any related information in the notes.

HKAS 1.82A

49 Entities are required to present the items of other comprehensive income that may be reclassified to profit or loss in the future (e.g. realised gains or losses on available-for-sale financial assets) separately from those that would never be reclassified to profit or loss (e.g. revaluation surplus of property, plant and equipment).

Also, the items of other comprehensive income arising from equity accounted investments should be presented in aggregate in two line items as follows:

- the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss; and

- the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

In this illustration, HK Listco does not have any share of other comprehensive income of associates and joint ventures.

HKAS 1.92-94

Individual HKFRSs specify whether and when amounts that were previously recognised in other comprehensive income are reclassified to profit or loss as follows:

- Items that will not be reclassified to profit or loss:
  - changes in the revaluation surplus on property, plant and equipment recognised under paragraphs 39 and 40 of HKAS 16 or on intangible assets under paragraphs 85 and 86 of HKAS 38;
  - remeasurements of net defined benefit liability (asset) under paragraphs 120(c), 127-130 of revised HKAS 19;

- Items that may be reclassified subsequently to profit or loss:
  - gain and losses arising from translating the financial statements of a foreign operation in accordance with paragraphs 32 and 39 of HKAS 21;
  - gains and losses on re-measuring available-for-sale investments in accordance with paragraph 55 of HKAS 39; and
  - the effective portion of gains and losses on hedging instruments in a cash flow hedge or hedge of a net investment in a foreign operation in accordance with paragraphs 95 and 102 of HKAS 39.

Reclassification adjustments are included with the related components of other comprehensive income in the period these adjustments are reclassified to profit or loss. The adjustments should be either separately disclosed on the face of the statement of profit or loss and other comprehensive income, or in the notes. In these illustrative financial statements, the reclassification adjustments are presented separately in note 9 to the financial statements, with the net amounts for each item of other comprehensive income being presented in the statement of profit or loss and other comprehensive income. For example, the amount of gains and losses on re-measuring available-for-sale investments that is reported as "other comprehensive income" has been reduced by the amount of gains or losses transferred from equity to profit or loss for the period in accordance with paragraph 55(b) of HKAS 39, *Financial instruments: Recognition and measurement*, as a result of disposal or impairment of these investments during the period.

HKAS 1.90-91

50 Entities are allowed to present the items of other comprehensive income on the face of the statement of profit or loss and other comprehensive income either (a) net of related tax effects, or (b) before related tax effects with the aggregate tax shown separately. If the alternative (b) is elected, then the "aggregate" amount should be allocated between the items that may be reclassified subsequently to profit or loss and those that will not be reclassified subsequently to profit or loss. Irrespective of the approach taken, the entity should disclose the tax amount relating to <u>each item</u> of other comprehensive income in the notes, to the extent that this information is not provided on the face of the statement of profit or loss and other comprehensive income.

In these illustrative financial statements, HK Listco has taken the alternative (a), i.e. presenting the after-tax amounts in the statement of profit or loss and other comprehensive income. Disclosure of the tax attributable to individual items of other comprehensive income is given in note 9 to the financial statements.

HKAS 1.10(b) & 51

Consolidated statement of profit or loss and other comprehensive income[40,41,48] for the year ended 31 December 2017

(Expressed in Hong Kong dollars)

HKAS 1.113
HKAS 1.51(e)

		Note	2017 $'000	2016 $'000
HKAS 1.81A(a)	**Profit for the year**		**124,783**	106,348
HKAS 1.81A(b)	**Other comprehensive income[49] for the year (after tax[50] and reclassification adjustments[49])**	9		
HKAS 1.82A(a)	Items that will not be reclassified to profit or loss[49]:			
	Surplus on revaluation of land and buildings held for own use	11(a)	**25,152**	6,312
	Remeasurement of net defined benefit liability	28(a)(v)	**(9)**	(10)
			25,143	6,302
HKAS 1.82A(b)	Items that may be reclassified subsequently to profit or loss[49]:			
	Exchange differences on translation of:			
	- financial statements of overseas subsidiaries		**(1,806)**	797
	- related borrowings	33(d)(iii)	**494**	(219)
			(1,312)	578
	Cash flow hedge: net movement in the hedging reserve		**(481)**	(445)
	Available-for-sale securities: net movement in the fair value reserve		**1,119**	300
			(674)	433
	Other comprehensive income for the year		**24,469**	6,735
HKAS 1.81A(c)	**Total comprehensive income for the year**		**149,252**	113,083
	Attributable to:			
HKAS 1.81B(b)	Equity shareholders of the company		**138,836**	102,916
HKFRS 10.B94	Non-controlling interests		**10,416**	10,167
HKAS 1.81A(c)	**Total comprehensive income for the year**		**149,252**	113,083

The notes on pages 38 to 165 form part of these financial statements.

[51] The CO explicitly uses the term "statement of financial position" in different sections, including in:

- section 387, which requires directors of the company to approve and sign the "statement of financial position"; and
- section 2 of Part 1 of Schedule 4 to the CO, which requires a holding company preparing consolidated financial statements to include a company-level "statement of financial position" in the notes to the financial statements.

Given that these requirements explicitly refer to "statement of financial position", we believe that the company should use the title "statement of financial position", and not other titles such as "balance sheet". This will also be in line with the terminology in Appendix 16, which uses "statement of financial position" in its requirements.

HKAS 1.10(f)
HKAS 1.40A-D

[52] HKAS 1 requires entities to include a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in the financial statements, or when it reclassifies items in its financial statements. Such opening statement of financial position is required only when the retrospective application, restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period. For example, if an entity applies a new accounting policy retrospectively in its financial statements for the year ended 31 December 2017 and this retrospective application has a material effect on the financial position as at 1 January 2016, the statement of financial position should include columns to report information as at 31 December 2017, 31 December 2016 and 1 January 2016.

HKAS 1.113

[53] Each item on the face of the statement of financial position shall be cross-referenced to any related information in the notes.

HKAS 1.30A

As discussed in footnote 42, an entity should take into consideration all relevant facts and circumstances in deciding how it aggregates information in the financial statements. Specifically, the entity should not reduce the understandability of the financial statements by aggregating material items that have different natures or functions. In some situations, the entity may need to disaggregate the line items in the statement of financial position and the statement of profit or loss and other comprehensive income as listed in HKAS 1 to improve the understandability of the financial statements.

HKAS 1.55

Also, an entity should present additional subtotals (i.e. in addition to those specifically required by HKFRS) in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

HKAS 19.133

[54] HKAS 19, *Employee benefits*, states that it does not specify whether assets and liabilities arising from post-employment benefits should be distinguished between current and non-current portions. We interpret this to mean that there is no need to apply the current/non-current distinction to all such assets and liabilities. However, where the distinction is clear, for example for outstanding contributions to defined contribution schemes due within 12 months, the distinction should be made. Also, a note may be necessary in accordance with paragraph 61 of HKAS 1, for example as illustrated in note 28(a)(i) to these financial statements, with regard to whether any of these balances include amounts due within and after 12 months.

HKAS 1.10(a) & 51
A16(4)(2)

Consolidated statement of financial position[51, 52, 53]

(Expressed in Hong Kong dollars)

Reference		Note	31 December 2017	31 December 2016
HKAS 1.113			**$'000**	$'000
HKAS 1.51(e)				
HKAS 1.60 & 66	**Non-current assets**			
HKAS 1.54(b)	Investment property	11	**84,950**	66,690
HKAS 1.54(a)	Other property, plant and equipment	11	**165,929**	131,497
HKAS 1.55	Interests in leasehold land held for own use under operating leases	11	**10,050**	10,385
			260,929	208,572
HKAS 1.54(c)	Intangible assets	12	**15,220**	14,400
HKAS 1.54(c)	Goodwill	13	**916**	1,100
HKAS 1.54(e) HKAS 28.38	Interest in associates	15	**40,308**	29,478
HKAS 1.54(e)	Interest in joint venture	16	**42,765**	32,095
HKAS 1.54(d)	Other financial assets	17	**60,930**	48,432
HKAS 1.54(o) & 56	Deferred tax assets	30(b)	**2,539**	3,495
			423,607	337,572
HKAS 1.60 & 66	**Current assets**			
HKAS 1.54(d) HKFRS 7.8(a)(ii)	Trading securities	18	**58,331**	58,020
HKAS 1.54(g)	Inventories	19	**255,488**	223,682
HKAS 1.54(h)	Trade and other receivables	20	**93,338**	78,079
HKFRS 7.8(c) HKAS 1.54(i)	Cash and cash equivalents	22	**76,580**	105,089
			483,737	464,870
HKAS 1.60 & 69	**Current liabilities**			
HKAS 1.54(k)	Trade and other payables	24	**176,409**	150,356
HKAS 1.54(m) HKFRS 7.8(f)	Bank loans and overdrafts	26	**33,218**	40,314
HKAS 1.54(m) HKFRS 7.8(f)	Obligations under finance leases	27	**1,210**	987
HKAS 1.54(n)	Current taxation	30(a)	**6,750**	6,950
HKAS 1.54(l)	Provisions	31	**10,900**	9,410
			228,487	208,017
	Net current assets		**255,250**	256,853
	Total assets less current liabilities		**678,857**	594,425
HKAS 1.60 & 69	**Non-current liabilities**			
HKAS 1.54(m) HKFRS 7.8(f)	Interest-bearing borrowings	25	**74,802**	72,251
HKAS 1.54(m) HKFRS 7.8(f)	Obligations under finance leases	27	**8,430**	7,547
	Net defined benefit retirement obligation[54]	28(a)	**3,884**	3,210
HKAS 1.54(o) & 56	Deferred tax liabilities	30(b)	**19,194**	13,850
HKAS 1.54(l)	Provisions	31	**12,100**	11,290
			118,410	108,148
	NET ASSETS		**560,447**	486,277

HKAS 1.113
HKAS 1.51(e)

	Note	**31 December 2017 $'000**	31 December 2016 $'000
CAPITAL AND RESERVES (HKAS 1.54(r))			
Share capital[55]	32(c)	**181,400**	175,000
Reserves		**296,780**	239,426
Total equity attributable to equity shareholders of the company		**478,180**	414,426
Non-controlling interests (HKAS 1.54(q), HKAS 27.28)		**82,267**	71,851
TOTAL EQUITY		**560,447**	486,277

HKAS 10.17 Approved and authorised for issue by the board of directors on 28 March 2018.

S387

Hon WS Tan[56]) Directors
SK Ho[56])

The notes on pages 38 to 165 form part of these financial statements.

55 Since 3 March 2014, the share premium account and any capital redemption reserve of all Hong Kong incorporated companies have been subsumed into share capital in accordance with section 37 of Schedule 11 to the CO.

S387(2) 56 Section 387(2) of the CO requires the financial statements to state the names of the directors who signed the statement of financial position on the directors' behalf.

HKAS 1.IN13 & 106-106A

57 Under HKAS 1, the statement of changes in equity focuses on owner changes in equity. Specifically, the standard requires the following items to be included in the statement of changes in equity, analysed by each component of equity:

- total comprehensive income for the period, with profit or loss and other comprehensive income separately disclosed;
- the amounts of transactions with equity holders in their capacity as such (such as equity contributions, re-acquisitions of the entity's own equity instruments, dividends and transaction costs directly related to such transactions); and
- the effects of retrospective application of changes in policies or retrospective restatements recognised in accordance with HKAS 8, *Accounting policies, changes in accounting estimates and errors*.

Entities are required to present an analysis of other comprehensive income by item either in the statement of changes in equity or in the notes. HK Listco Ltd has chosen to present this analysis in the notes (note 9 on page 80).

HKAS 1.113

58 Each item on the face of the statement of changes in equity shall be cross-referenced to any related information in the notes.

HKAS 1.54(q) & 106(a)

59 As non-controlling interests in the equity of a subsidiary are presented as part of equity, and not as a deduction from net assets (see policy note 1(d)), they should be included in the statement of changes in equity as one of the components of total equity.

HKAS 1.10(c) & 51

Consolidated statement of changes in equity[57, 58] for the year ended 31 December 2017

(Expressed in Hong Kong dollars)

			Attributable to equity shareholders of the company									
HKAS 1.113 HKAS 1.51(e)		Note	Share capital $'000	Capital reserve $'000	Exchange reserve $'000	Property revaluation reserve $'000	Hedging reserve $'000	Fair value reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests[59] $'000	Total equity $'000
	Balance at 1 January 2016		175,000	134	1,270	2,251	2,823	150	200,257	381,885	61,684	443,569
HKAS 1.106(d)	**Changes in equity for 2016:**											
	Profit for the year		-	-	-	-	-	-	96,181	96,181	10,167	106,348
	Other comprehensive income	9	-	-	578	6,312	(445)	300	(10)	6,735	-	6,735
HKAS 1.106(a)	Total comprehensive income		-	-	578	6,312	(445)	300	96,171	102,916	10,167	113,083
HKAS 1.106(d)(iii)	Dividends approved in respect of the previous year	32(b)	-	-	-	-	-	-	(45,000)	(45,000)	-	(45,000)
	Equity settled share-based transactions		-	1,625	-	-	-	-	-	1,625	-	1,625
	Dividends declared in respect of the current year	32(b)	-	-	-	-	-	-	(27,000)	(27,000)	-	(27,000)
	Balance at 31 December 2016 and 1 January 2017		175,000	1,759	1,848	8,563	2,378	450	224,428	414,426	71,851	486,277
HKAS 1.106(d)	**Changes in equity for 2017:**											
	Profit for the year		-	-	-	-	-	-	114,367	114,367	10,416	124,783
	Other comprehensive income	9	-	-	(1,312)	25,152	(481)	1,119	(9)	24,469	-	24,469
HKAS 1.106(a)	Total comprehensive income		-	-	(1,312)	25,152	(481)	1,119	114,358	138,836	10,416	149,252
HKAS 1.106(d)(iii)	Dividends approved in respect of the previous year	32(b)	-	-	-	-	-	-	(49,500)	(49,500)	-	(49,500)
	Purchase of own shares	32(c)(iii)	-	-	-	-	-	-	(3,390)	(3,390)	-	(3,390)
	Shares issued under share option scheme	32(c)(iv)	6,400	(400)	-	-	-	-	-	6,000	-	6,000
	Equity settled share-based transactions		-	1,658	-	-	-	-	-	1,658	-	1,658
	Dividends declared in respect of the current year	32(b)	-	-	-	-	-	-	(29,850)	(29,850)	-	(29,850)
	Balance at 31 December 2017		**181,400**	**3,017**	**536**	**33,715**	**1,897**	**1,569**	**256,046**	**478,180**	**82,267**	**560,447**

The notes on pages 38 to 165 part of these financial statements.

HKAS 1.10(d) & 51

Consolidated cash flow statement[60] for the year ended 31 December 2017

(Expressed in Hong Kong dollars)

HKAS 1.113
HKAS 1.51(e)

		Note	2017 $'000	2017 $'000	2016 $'000	2016 $'000
	Operating activities					
	Cash generated from operations	22(b)	**125,674**		102,647	
HKAS 7.35	Tax paid:					
	- Hong Kong profits tax paid		**(13,261)**		(11,112)	
	- Overseas tax paid		**(7,150)**		(6,950)	
HKAS 7.10	**Net cash generated from operating activities**			**105,263**		84,585
HKAS 7.21	**Investing activities**					
	Payment for the purchase of property, plant and equipment		**(21,822)**		(20,760)	
	Proceeds from sale of property, plant and equipment		**749**		1,008	
	Expenditure on development project[61]		**(3,500)**		(2,400)	
HKAS 7.37	New loans to associates		**(21,005)**		(7,197)	
HKAS 7.37	Loans repaid by associates		**11,000**		-	
	Payment for purchase of:					
	- held-to-maturity securities		**(500)**		-	
	- available-for-sale securities		**(7,479)**		-	
	Proceeds from sale of available-for-sale securities		**8,700**		-	
HKAS 7.31	Interest received[62]		**2,203**		4,000	
HKAS 7.31 & 37	Dividends received from associates[62]		**3,000**		-	
HKAS 7.31	Dividends received from investments in securities[62]		**610**		572	
HKAS 7.10	**Net cash used in investing activities**			**(28,044)**		(24,777)
HKAS 7.21	**Financing activities**					
	Capital element of finance lease rentals paid	22(c)	**(1,833)**		(850)	
	Payment for repurchase of shares		**(3,390)**		-	
	Proceeds from new bank loans	22(c)	**6,100**		6,390	
	Repayment of bank loans	22(c)	**(10,480)**		(4,919)	
HKAS 7.37	Proceeds from new loans from associates	22(c)	**1,759**		906	
	Proceeds from shares issued under share option scheme	32	**6,000**		-	
	Proceeds from the issue of redeemable preference shares		**-**		4,000	
	Payment of transaction costs on issue of redeemable preference shares		**-**		(88)	
HKAS 7.31	Interest element of finance lease rentals paid[62]	22(c)	**(505)**		(490)	
HKAS 7.31	Other borrowing costs paid[62]	22(c)	**(19,718)**		(15,179)	
HKAS 7.31	Dividends paid on redeemable preference shares[62]	22(c) & 32	**(200)**		(200)	
HKAS 7.31	Dividends paid to equity shareholders of the company[62]	32	**(79,350)**		(72,000)	
HKAS 7.10	**Net cash used in financing activities**			**(101,617)**		(82,430)
HKAS 7(App)	**Net decrease in cash and cash equivalents**			**(24,398)**		(22,622)
	Cash and cash equivalents at 1 January	22(a)		**102,300**		122,650
HKAS 7.28	**Effect of foreign exchange rate changes**			**(2,588)**		2,272
	Cash and cash equivalents at 31 December	22(a)		**75,314**		102,300

The notes on pages 38 to 165 form part of these financial statements.

HKAS 1.113 — 60 Each item on the face of the cash flow statement shall be cross-referenced to any related information in the notes.

HKAS 7.16 — 61 Including this cash out flow under "investing activities" is appropriate for HK Listco Ltd as the expenditure relates to the creation of an intangible asset (see note 12 to these illustrative financial statements). However, when the expenditure on development activities fails to meet the criteria in HKAS 38, *Intangible assets*, for recognition as an asset, then the cash flows should be classified as part of operating activities.

62 According to paragraphs 33 and 34 of HKAS 7, interest and dividends received and paid may also be classified as operating cash flows. If these cash flows are classified as arising from operating activities, they could be presented after "Cash generated from operations" and before "Net cash flows generated from operating activities", i.e., similar to the "Tax paid" caption.

HKAS 1.10(e), 51(d), 112 & 113

Notes to the financial statements[63]

(Expressed in Hong Kong dollars unless otherwise indicated)[64 and 65]

HKAS 1.117

1 SIGNIFICANT ACCOUNTING POLICIES[66]

(a) Statement of compliance

Sch 4, Part 1, Section 4(a)
HKAS 1.16
A16(5)

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance[67]. *These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange*

HKAS 1.113

63 HKAS 1 requires that notes shall, as far as practicable, be presented in a systematic manner. In determining a systematic manner, an entity should consider the effect on the understandability and comparability of its financial statements. HKAS 1 provides the following examples of systematic ordering or grouping of the notes:

HKAS 1.114

(a) giving prominence to the areas of its activities that the entity considers to be most relevant to an understanding of its financial performance and financial position, such as grouping together information about particular operating activities;
(b) grouping together information about items measured similarly such as assets measured at fair value; or
(c) following the order of the line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position.

In these illustrative financial statements, HK Listco Ltd generally follows approach (c) by presenting notes following the order of the line items in the primary statements.

HKAS 21.53-57

64 If the consolidated financial statements are presented in a currency different from the parent entity's functional currency, the entity should disclose that fact, its functional currency and the reason for using a different presentation currency. In addition, if an entity includes financial information in a presentation currency other than its functional currency, without complying with the requirements of paragraph 55 of HKAS 21 (for example, where the entity translates only selected items of information, such as on the face of the primary statements, for the convenience of the users of the financial statements), then it should clearly identify the information as supplementary and should make the disclosures as required by paragraph 57 of HKAS 21 concerning this supplementary information.

HKAS 1.51(e) & 53

65 Paragraph 51(e) of HKAS 1 requires the level of rounding used in presenting amounts in the financial statements to be displayed prominently and repeated where it is necessary for a proper understanding of the information presented. Paragraph 53 of HKAS 1 also notes that often financial statements may be made more understandable by presenting information in thousands or millions of units of the presentation currency, and that this is acceptable, provided the level of rounding is disclosed and material information is not omitted.

Generally, the financial statements should be prepared using a consistent level of precision. That is, if the primary statements are presented, for example, to the nearest 1,000, then any note disclosures which support the primary statements, such as further analyses of income statement or balance sheet captions, would also generally be presented in round thousand amounts, so as to exactly reconcile to the amounts disclosed in the primary statements. However, occasionally it may be appropriate to present specific items of information in the financial statements using different levels of precision from that used generally.

For example, although HK Listco Ltd generally presents its financial statements in $'000, some note disclosures are presented in a lower level of precision, due to the uncertainty surrounding the measurement of that item. For example, as illustrated in note 35(a) and (b) on page 152, when HK Listco Ltd is disclosing the estimated financial effect of pending law suits which are regarded as contingent liabilities, it has disclosed the estimate in $millions due to the uncertainties involved in estimating the outcome. The level of precision used in such cases should be clearly disclosed in accordance with paragraph 51(e) of HKAS 1 and care should be taken to ensure that material information is not omitted.

HKAS 1.117(b)

66 For the purposes of assisting the users of these illustrative financial statements, we have provided policy notes that cover a wide range of transactions and circumstances. Not all of these policies will be relevant to an individual entity's circumstances or significant. Conversely, there may be other policies which an entity needs to disclose as a result of transactions it has entered into, or policy choices it has made, which are not illustrated here. Care should be taken to meet the requirements of HKAS 1 to disclose a description of each accounting policy that is relevant to an understanding of the financial statements. In addition, other HKFRSs may specifically state that the policy for the topic in question needs to be disclosed. Where this is the case, we have given the cross references to the disclosure requirements in the left hand column (see, for example, policy note 1(o) which has cross reference to paragraph 36(a) of HKAS 2. See Appendix A to this Guide for a full index of the accounting policies illustrated here.

67 For listed companies incorporated outside Hong Kong, the word "disclosure" is normally inserted before the words "requirements of the Hong Kong Companies Ordinance".

of Hong Kong Limited. Significant accounting policies adopted by the group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

HKAS 1.51(b)

The consolidated financial statements for the year ended 31 December 2017 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates and a joint venture.

HKAS 1.117(a)

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment property (see note 1(j));
- other freehold land and buildings (see note 1(k));
- other leasehold land and buildings, where the leasehold land is classified as being held under a finance lease (see notes 1(k) and (m));
- financial instruments classified as available-for-sale or as trading securities (see note 1(g)); and
- derivative financial instruments (see note 1(h)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note1(cc)).

HKAS 1.122 & 125

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

HKAS 8.28

(c) Changes in accounting policies[68, 69, 70]

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the group. None of these impact on the accounting policies of the group. However, additional disclosure has been included in note 22(c) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative,* which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions

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68 Paragraph 28 of HKAS 8 requires certain disclosures to be made when the initial application of a Standard or Interpretation has an effect on the current period or any prior period (or would have such an effect except that it is impracticable to determine the amount of the adjustment), or might have an effect on future periods. The disclosures required are both qualitative and quantitative, and include, to the extent practicable, the adjustments for the current period and each prior period presented for each financial statement line item affected, including earnings per share, if disclosed. As with all HKFRSs, these requirements in HKAS 8 apply only to the extent that the effect would be material.

It is important that care is taken to tailor the disclosures to suit the entity's circumstances, as there may be changes in accounting policies which an entity needs to disclose but which have not been illustrated. A full list of the recent HKFRS developments is included in Appendix B to this Guide and care should be taken to check whether any of these could have a material impact on the entity.

69 As explained in footnote 52 on page 32, HKAS 1 requires an entity to present statement of financial position information as at the beginning of the preceding period (i.e. here: 1 January 2016) whenever an accounting policy has been adopted retrospectively, an error has been corrected retrospectively or comparatives have been restated for any other reason and this retrospective application, restatement or reclassification has a material effect on the information in the opening statement of financial position for the comparative period. Care should be taken to ensure this additional statement is given whenever an accounting policy change has material effect on the opening statement of financial position for the comparative period.

70 There is no requirement to disclose details of any changes in HKFRS requirements which have no material impact on the group's accounting policies, such as changes which relate only to certain business activities in which the group is not involved. Also, even if changes in the HKFRS requirements may be broadly relevant to the group's accounting policies, the impact on the reported net assets and performance may be immaterial at the time of the change, for example, because the change relates only to certain types of transactions that the group has not entered into recently. Therefore, the extent of information that an entity may disclose in respect of recent developments in HKFRS which do not result in restatements may vary from one entity to the next.

When none of the developments in HKFRSs have a material impact on the financial statements but the entities still wish to identify the developments which are relevant to them in the note disclosure, the following alternative wording may be used:

"The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the group. Of these, the following amendments are relevant to the group:

- Amendments to HKAS 7, *Statement of cash flow: Disclosure initiative*
- …

None of these developments have had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period."

are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the company, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income[71] as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(r), (s), (t) or (u) depending on the nature of the liability.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 1(e)).

HKAS 27.17(c)

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(cc))[72].

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71 As HK Listco has opted for the two-statement approach to the presentation of income and expenses in these illustrative financial statements (see footnote 41 on page 28) and uses the titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" (see footnote 40), these terms continue to be used throughout the notes to the illustrative financial statements. Where entities adopt instead the single-statement format and/or the other titles for the statements (e.g. "income statement" and "statement of comprehensive income"), the references to the relevant statements should be tailored accordingly.

72 As further discussed in footnote 226 on 156, under the CO the company-level statement of financial position is required to be disclosed as a note to the consolidated financial statements. Nevertheless, users may find the accounting policies in respect of investments in subsidiaries, joint ventures and associates useful information in understanding how these investments are accounted for in the company's statement of financial position. Therefore entities are recommended to disclose those accounting policies to the extent that they are relevant to the company-level statement of financial position.

(e) Associates and joint ventures

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the group or company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(cc)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1 (f) and (n)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the group's share of losses exceeds its interest in the associate or the joint venture, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the group and its associates and joint venture are eliminated to the extent of the group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).

HKAS 27.17(c) In the company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 1(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(cc)).[72]

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(n)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

HKFRS 7.21

(g) Other investments in debt and equity securities

The group's and the company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

HKFRS 7.B5(e)

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(z)(v) and (vi).[73]

Dated debt securities that the group and/or the company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment losses (see note 1(n)).

HKFRS 7.B5(b) & (e)

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured,

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HKFRS 7.B5(e)

[73] Paragraph B5(e) of HKFRS 7 requires disclosure of the way in which net gains or net losses on each category of financial instruments are determined.

This disclosure is of particular relevance for income-earning financial instruments carried at fair value through profit or loss. Paragraph B5(e) of HKFRS 7 indicates that entities are allowed an accounting policy choice to report interest income or dividend income on financial instruments at fair value through profit or loss as part of net gains or net losses on these financial instruments, or to disclose these separately as part of interest income or dividend income. Regardless of the accounting policy chosen, the policy should be applied consistently from period to period.

In addition, if an entity reports dividend income or interest income as part of net gains or net losses on financial instruments carried at fair value through profit or loss, it should be noted that paragraph 35(b) of HKAS 18 requires disclosure of the amount of interest and dividend income. Consequently, the amounts of dividend income or interest income may still be required to be separately disclosed in the notes if material.

with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(n)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(z)(v) and 1(z)(vi), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

HKFRS 7.B5(c)

When the investments are derecognised or impaired (see note 1(n)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised / derecognised on the date the group commits to purchase / sell the investments or they expire.

HKFRS 7.21
HKFRS 7.B5(e)

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note 1(i)).

HKFRS 7.21

(i) Hedging

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gains or losses on remeasurement of the derivative financial instrument to fair value are recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(ii) Hedge of net investments in foreign operations

The portion of the gain or loss on remeasurement to fair value of an instrument used to hedge a net investment in a foreign operation that is determined to be an effective hedge is recognised in other comprehensive income and accumulated separately in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

(j) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(m)) to earn rental income and / or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

HKAS 40.75(a)

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(z)(iv).

HKAS 40.75(b)

When the group holds a property interest under an operating lease to earn rental income and / or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(m)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(m).

(k) Other property, plant and equipment

HKAS 16.73(a)

The following properties held for own use are stated at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

- freehold land and buildings; and
- land classified as being held under finance leases and buildings thereon (see note 1(m)).

Revaluations are performed with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from that which would be determined using fair values at the end of reporting period.

HKAS 16.73(a)

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(n)):

- buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 1(m)); and
- other items of plant and equipment.

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to profit or loss to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to profit or loss to the extent that a deficit on revaluation in respect of that same asset had previously been charged to profit or loss.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(bb)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

HKAS 16.73(b) & (c) Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Freehold land is not depreciated.
- Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.
- Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.
- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.
- Plant and machinery 10 years
- Others 3 - 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(l) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(bb)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(n)). Other development expenditure is recognised as an expense in the period in which it is incurred[74].

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 1(n)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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74 Due to the restrictive conditions for the recognition of development expenditure, some entities may consider that the following wording for the accounting policy would be more appropriate to their circumstances:

"Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred."

HKAS 38.118(a) & (b)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

- capitalised development costs	5 years
- patents and trademarks	5 to 10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(m) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the group

Assets that are held by group under leases which transfer to the group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the group are classified as operating leases, with the following exceptions:

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(j)); and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the group will obtain ownership of the asset, the life of the asset, as set out in note 1(k). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(n). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(j)) or is held for development for sale (see note 1(o)(ii)).

(n) Impairment of assets

HKFRS 7.21 (i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence
HKFRS 7.B5(f) of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events[75]:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(n)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's

HKFRS 7.B5(f) 75 Paragraph B5(f) of HKFRS 7 requires disclosure of the criteria used to determine that there is objective evidence that an impairment loss in respect of a financial asset has occurred. Guidance on the meaning of "objective evidence" and examples of such evidence can be found in paragraphs 59-62 of HKAS 39.

original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

HKFRS 7.B5(d)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account[76]. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

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[76] Although paragraph 63 of HKAS 39 seems to allow entities an accounting policy choice of reducing the carrying amount of financial assets impaired by credit losses either directly or through the use of an allowance account, it is noted in paragraph BC27 of the Basis for Conclusions to HKFRS 7 that in practice, HKAS 39's requirement to consider impairment on a collective basis would necessitate the use of an allowance or similar account for virtually all entities. In addition, an entity may use an allowance account for recording impairment losses that have been assessed on an individual basis, where there is still some possibility of recovery even though not considered probable. Further guidance on HKAS 39's requirements to assess financial assets carried at amortised cost individually and collectively for impairment can be found in paragraphs 64 and AG84-AG92 of HKAS 39.

HKFRS 7.B5(d)

When an entity records the impairment of financial assets as a result of credit losses in an allowance account, rather than directly reducing the carrying amount of the asset, paragraph B5(d) of HKFRS 7 requires the disclosure of accounting policies in this regard, including:

- the criteria for determining when the carrying amount of impaired financial assets is reduced directly (or, in the case of a reversal of a write-down, increased directly) and when the allowance account is used; and
- the criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets.

NB Paragraph 63 of HKAS 39 requires the financial assets to be stated in the statement of financial position net of the related allowances for impairment. However, if references are made in the financial statements to the use of an allowance account, entities are recommended, as a matter of best practice and to avoid confusion, to clearly state whether references to the carrying amounts of the related financial assets (for example, trade debtors and bills receivable) are to amounts before or net of the allowance account.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- intangible assets;
- goodwill; and
- investments in subsidiaries, associates and joint ventures in the company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

  An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(n)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been *recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.*

(o) Inventories

HKAS 2.36(a)

(i) Electronic manufacturing

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value[77]. Cost and net realisable values are determined as follows:

- Property under development for sale

  The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 1(bb)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

- Completed property held for resale

  In the case of completed properties developed by the group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

  The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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[77] Under paragraph 33 of HKAS 17, operating lease payments are generally spread on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit. In the absence of further clarification from the HKICPA or IASB, in our view, where leasehold land is held for the purposes of development for sale, an acceptable policy would be to recognise any consumption of the lease by reference to the net realisable value of the property, in accordance with paragraph 9 of HKAS 2, as illustrated here. Alternatively the land cost may be amortised on a straight-line basis and expensed unless construction activities are in progress. Whichever policy is adopted, it should be applied consistently to all such leasehold property held as inventory and from one period to the next, to the extent that the effect would be material.

(p) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design[78]. The accounting policy for contract revenue is set out in note 1(z)(iii). When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the statement of financial position as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included under "Trade debtors and bills receivable". Amounts received before the related work is performed are presented as "Advances received" under "Trade and other payables".

HKFRS 7.21

(q) Trade and other receivables[79]

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

HKFRS 7.21

(r) Convertible notes

(i) Convertible notes that contain an equity component

Convertible notes that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured at fair value based on the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. The equity component is initially recognised at the difference between the fair value of the convertible notes as a whole and the fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest

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[78] HK(IFRIC) 15, *Agreements for the construction of real estate*, includes guidance on how to determine whether a contract for the construction of real estate should be regarded as a construction contract within the scope of HKAS 11, *Construction contracts*, or within HKAS 18, *Revenue*. Where this distinction is material to an entity's activities and involves the exercise of judgement, further disclosure of the judgements made by the entity in applying the policy may be required under paragraph 122 of HKAS 1 (for example, in the entity's equivalent of note 2(a) to these illustrative financial statements).

HKFRS 7.B5(g) [79] When the terms of financial assets that would otherwise be past due or impaired have been renegotiated, paragraph B5(g) of HKFRS 7 requires the disclosure of the accounting policy for financial assets that are the subject of renegotiated terms.

method. The equity component is recognised in the capital reserve until either the note is converted or redeemed.

If the note is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the capital reserve is released directly to retained profits.

(ii) Other convertible notes

Convertible notes which do not contain an equity component are accounted for as follows:

At initial recognition the derivative component of the convertible notes is measured at fair value and presented as part of derivative financial instruments (see note 1(h)). Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible note are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured in accordance with note 1(h). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

HKFRS 7.21

(s) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

HKFRS 7.21

(t) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised in accordance with the group's policy for interest-bearing borrowings set out in note 1(s) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

HKFRS 7.21

(u) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(y)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

HKAS 7.46
HKFRS 7.21

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(w) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated by function as part of "cost of sales", "distribution costs" or "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

R17.08

(iii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged / credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

(iv) Termination benefits

Termination benefits are recognised at the earlier of when the group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(x) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(j), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(y) Financial guarantees issued, provisions and contingent liabilities

HKFRS 7.21 (i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income. [80]

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(y)(iii) if and when (i) it becomes probable that the holder of the guarantee will call upon the group under the guarantee, and (ii) the amount of that claim on the group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(y)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(y)(iii).

(iii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group or the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

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[80] HKAS 39 does not contain any specific guidance as to where the debit entry arising from the initial recognition of the deferred income at fair value should be recorded. In the absence of any cash consideration or promise to pay cash or other financial assets, the debit would generally be recorded as a day-one expense unless recognition as another form of asset can be justified. In the examples illustrated in HK Listco's financial statements, two different types of asset have been identified:

(a) In the case of the guarantee issued in respect of a loan to a director, which is conditional on the director remaining with the company, the asset identified is a prepayment of employee benefits-in-kind. This is amortised over the same period as the deferred income from issuing the guarantee.

(b) In the case of the guarantee issued by the company in respect of a loan to its wholly owned subsidiary, the asset identified is a form of capital contribution i.e. an addition to the cost of the investment in the subsidiary. This is on the basis that, all other things being equal, the subsidiary will earn enhanced profits as a result of the financial guarantee from having secured borrowings at a lower rate than it would have done without the guarantee, and these profits will eventually flow to the company by way of dividends or enhanced disposal proceeds. The increased aggregate cost of investment would then be subject to the normal rules applied to investments in subsidiaries, in particular concerning the calculation of impairment losses.

(z) Revenue recognition

HKAS 18.35(a)
HKAS 1.117(a)

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the later of the signing of the sale and purchase agreement and the completion of the properties, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer[81]. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under forward sales deposits and instalments received.

(iii) Contract revenue

HKAS 11.39(b) & (c)

When the outcome of a construction contract can be estimated reliably:

- revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract; and
- revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(v) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

81 The wording of this accounting policy is only relevant where the nature of the entity's property development activities is such that revenue is only recognised on the activity at a single point in time (i.e. on completion of the property), rather than continuously as construction progresses, even when the entity has entered into a pre-completion sales agreement. The wording should be tailored when the nature of an entity's property development activities and contracts with customers indicate that a different recognition policy would be appropriate. In addition, disclosure of the judgements made by the entity in applying such different policies may be appropriate under paragraph 122 of HKAS 1 (for example, in the entity's equivalent of note 2(a) to these illustrative financial statements). Further guidance in respect of the various revenue recognition policies that may apply to property development activities can be found in HK(IFRIC) 15, *Agreements for the construction of real estate*.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

HKAS 20.39(a)

(vii) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(aa) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income (see note 1(i)(ii)).

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(bb) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(cc) Non-current assets held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the group and the company are concerned[82] are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which 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.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale (see (i) above), if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the statement of profit or loss, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

[82] Paragraph 5 of HKFRS 5 contains the full list of the assets which are not subject to the measurement requirements of HKFRS 5, even though they are subject to the disclosure requirements if they meet the held for sale criteria either individually or as part of a disposal group. For the purposes of describing the significant aspects of this accounting policy, the wording here takes an approach of listing only those assets in the paragraph 5 of HKFRS 5 which the group currently has on its statement of financial position. This wording is illustrative only and other approaches may also be acceptable, provided the disclosure is factually accurate to the entity's circumstances.

(dd) Related parties[83]

(a) A person, or a close member of that person's family, is related to the group if that person:

(i) has control or joint control over the group;

(ii) has significant influence over the group; or

(iii) is a member of the key management personnel of the group or the group's parent.

(b) An entity is related to the group if any of the following conditions applies:

(i) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(ee) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

HKAS 24.9, BC 51

[83] The principles for identifying related party relationships under HKAS 24 can be summarised as follows:

- The definitions are symmetrical, i.e. if A is related to B for the purpose of B's financial statements, then B is related to A in A's financial statements. One exception to this principle is the relationship between an entity and a management entity. A management entity that provides key management personnel (KMP) services to the reporting entity (or parent of the reporting entity) is a related party of the reporting entity. However, the reporting entity is not a related party of the management entity solely as a consequence of being a customer of the management entity.
- In respect of indirect relationships involving at least significant influence, presence of control or joint control in at least one leg of an indirect relationship leads to a related party relationship (for example, a subsidiary is related to a fellow subsidiary as both entities are under common control, but an associate is not related to a fellow associate, as the common linkage is only via significant influence on both legs).
- KMP relationships are treated as being equivalent in strength to significant influence.
- There is no distinction between an individual and his/her close family members i.e. if the individual is a related party, then so are his/her close family members.

2 ACCOUNTING JUDGEMENT AND ESTIMATES

HKAS 1.122

(a) Critical accounting judgements in applying the group's accounting policies[84]

In the process of applying the group's accounting policies, management has made the following accounting judgements:

HKAS 1.122

(i) Investment property

The group has temporarily sub-let a vacant warehouse but has decided not to treat this property as an investment property because it is not the group's intention to hold this property in the long-term for capital appreciation or rental income. Accordingly, this property is still treated an item of other property, plant and equipment.

(ii) Determining whether an arrangement contains a lease[85]

During the year ended 31 December 2015, the group entered into a procurement contract for electronic components whereby a supplier built a set of equipment, which the supplier will use to provide a specific electronic component used in the manufacturing of a new product in the electronics operations for a period of 10 years. The group pays a fixed annual amount over the

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HKAS 1.122-124

[84] HKAS 1 requires an entity to disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see footnote 86 on page 63), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. As illustrated here, this disclosure extends the more generic policy descriptions that are found in note 1 to explain, how, in particular circumstances, those policies were applied during the period. Management will need to exercise judgement in determining which such circumstances warrant additional disclosure as being those "that have the most significant effect on the amounts recognised in the financial statements" and may need to update the disclosure from one year to the next. Further examples, depending on the significance to the entity, might include decisions made during the period as to whether a fall in value of an available-for-sale security was an indication of impairment, whether or not certain circumstances during the period indicated that it was appropriate to suspend interest capitalisation on a development project that had been delayed or whether the entity was acting as an agent or a principal in an arrangement.

HKFRS 12.7-9

In addition to the above general disclosure requirement about significant judgements in HKAS 1, HKFRS 12, *Disclosure of interests in other entities* requires an entity to disclose information about significant judgements and assumptions it has made (and changes to those judgements and assumptions) in determining:

- that it has control of another entity;
- that it has joint control of an arrangement or significant influence over another entity; and
- the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle.

To comply with the above, an entity should disclose, for example, significant judgements and assumptions made in determining that:

- it does not control another entity even though it holds more than half of the voting rights of the other entity;
- it controls another entity even though it holds less than half of the voting rights of the other entity;
- it is an agent or a principal;
- it does not have significant influence even though it holds 20% or more of the voting rights of another entity; and
- it has significant influence even though it holds less than 20% of the voting rights of another entity.

Where a particular matter has involved both accounting estimates and other judgements in the application of policies, the reader may find it easier to understand the information being presented if the disclosures to be made under paragraph 122 of HKAS 1 (concerning other judgements made in the application of policies) and paragraph 125 of HKAS 1 (concerning accounting estimates) were combined in one note or cross-referenced to each other.

[85] In these illustrative financial statements we have illustrated one form of an arrangement which may contain a lease under HK(IFRIC) 4, being a procurement contract where the group's use of a supplier's equipment was so extensive that the group recognised the equipment amongst its own property, plant and equipment as being held for the group's use under a finance lease.

In this regard it is important to note that there are many different types of arrangements that may contain leases under HK(IFRIC) 4's consensus and guidance. Furthermore, those leases may be operating leases or finance leases, and the entity may be taking the role of the lessor or the lessee, depending on the facts and circumstances of the arrangement. For example, the supplier in the example illustrated above would also need to apply HK(IFRIC) 4 in its own financial statements (assuming it was a follower of HKFRSs), reflecting its role as the lessor of a finance lease. Care should therefore be taken to consider the extent to which HK(IFRIC) 4 applies to arrangements entered into with others and to adopt its requirements to the extent applicable.

term of the arrangement, plus a variable charge based on the quantity of electronic components delivered.

Although the arrangement is not in the legal form of a lease, the group concluded that the arrangement contains a lease of the equipment, because fulfilment of the arrangement is economically dependent on the use of the specific equipment, it is unlikely that any parties other than the group will receive more than an insignificant part of the output and the group pays a fixed annual amount over the term of the arrangement, in addition to a charge per unit of output.

The lease was classified as a finance lease as the duration of the arrangement is for more than a major part of the specific equipment's useful life and the present value of the minimum payments under the arrangement amount to at least substantially all of the fair value of the specific equipment. At the inception of the arrangement, the present value of the minimum lease payments relating to the lease element have been estimated based on the fair value of the specific equipment and the imputed finance charge on the finance lease liability has been estimated using the group's incremental borrowing rate. The remaining payments under the arrangement are accounted for as arising under executory contracts for the purchase of inventory and are therefore recognised in accordance with the policy set out in note 1(o)(i).

HKAS 1.125

(b) Sources of estimation uncertainty[86]

Notes 11(b), 13, 28(a), 29 and 33 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, defined benefit retirement obligations, fair value of share options granted and financial instruments. Other key sources of estimation uncertainty are as follows:

(i) Warranty provisions

As explained in note 31, the group makes provisions under the warranties it gives on sale of its electronic products taking into account the group's recent claim experience. As the group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(ii) Construction contracts

As explained in policy notes 1(p) and 1(z)(iii) revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the group's recent experience and the nature of the construction activity undertaken by the group, the group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in note 21 will not include profit which the group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

HKAS 1.125-133

[86] HKAS 1 requires an entity to disclose in the notes information about the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

(a) their nature; and
(b) their carrying amount as at the end of the reporting period.

This disclosure can, and often will, be made in amongst other information disclosed relating to those assets and liabilities. For example, disclosures in respect of contingent liabilities relate to possible losses that may occur in the future. Where such disclosure has not been made elsewhere, a separate note on sources of estimation uncertainty would be presented. Further guidance can be found in paragraphs 126-133 of HKAS 1.

3 REVENUE *AND SEGMENT REPORTING*[87]

(a) Revenue[88]

HKAS 1.138(b) The principal activities of the group are the manufacturing and sale of electronic products, property development, property investment and carrying out construction activities for others.

The amount of each significant category of revenue is as follows[89]:

		2017	2016
HKAS 18.35(b) HKFRS 8.32		**$'000**	$'000
	Sales of electronic products	**945,776**	840,437
	Sales of completed properties	**105,192**	120,766
HKAS 40.75(f)(i)	Gross rentals from investment properties	**8,535**	6,211
HKAS 11.39(a)	Revenue from construction contracts	**25,392**	17,826
		1,084,895	985,240

HKFRS 8.34 *The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the group's revenues. In 2017 revenues from sales of electronic products to this customer, including sales to entities which are known to the group to be under common control with this customer, amounted to approximately $126 million (2016: $108 million) and arose in all three geographical regions in which the electronics division is active[90]. Details of concentrations of credit risk arising from this customer are set out in note 33(a)[91].*

Further details regarding the group's principal activities are disclosed below:

HKFRS 8.3 87 HKFRS 8 applies primarily to entities whose debt or equity securities are listed or quoted in a public market). Entities that fall outside the scope of HKFRS 8 may provide information about segments on a voluntary basis. However, if this information does not comply fully with HKFRS 8, then, as per paragraph 3 of HKFRS 8, this information should not be described as "segment information". In HK Listco's financial statements we have included the information on the entity's products and services and major customers in note 3(a) "Revenue" (see footnote 88 below) and the other segmental disclosures are included in note 3(b) "Segment reporting". Other approaches to disclosing this information are acceptable provided they meet the basic disclosure requirement of paragraph 113 of HKAS 1, to present notes in a systematic manner.

HKFRS 8.31-34 88 HKFRS 8 requires disclosure of certain information about an entity's products and services, geographical areas and major customers, even if the entity has only one reportable segment. These minimum disclosures, referred to as "entity-wide disclosures" in HKFRS 8, should be based on the financial information that is used to produce the entity's financial statements (i.e. the disclosure is not based on the management approach, which is otherwise used in disclosing segment information). The disclosures are required only if they are not provided as part of the reportable segment information required by HKFRS 8. As mentioned in footnote 87, in HK Listco's financial statements we have included the information on the entity's products and services and major customers in note 3(a) "Revenue", while the other entity-wide disclosures are included in note 3(b) "Segment reporting". Other approaches to disclosing this information are acceptable provided they meet the basic disclosure requirement of paragraph 113 of HKAS 1, to present notes in a systematic manner.

HKAS 18.35(b) 89 Paragraph 35(b) of HKAS 18 requires disclosure of each significant category of revenue recognised during the period. Revenue, as defined in HKAS 18, is income that arises in the course of the ordinary activities of an entity. Other income, i.e. income that does not arise in the course of the ordinary activities of the entity, is reported separately from revenue (see also footnote 106).

HKFRS 8.34 & BC58 90 HKFRS 8 requires the disclosure of information about revenues from major customers if revenues from transactions with a single external customer amount to 10% or more of an entity's revenues. For the purpose of this requirement, a group of entities known to be under common control should be considered as a single customer. However, entities should apply judgement to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity should consider the extent of economic integration between those entities.

HKFRS 7.34(c) & B8

91 In addition to the disclosure of major customers required by HKFRS 8, paragraph 34(c) of HKFRS 7 requires disclosures about concentration of credit risk arising from financial instruments, which include a description of how management determines concentration, a description of the shared characteristic that identifies each concentration (e.g. counterparty, geographical area, currency or market) and the amount of the risk exposure associated with all financial instruments sharing that characteristic – see note 33(a) to these illustrative financial statements. Where information disclosed in other notes is referring to the same major customer or customers as are disclosed in the segment information disclosures, it would be useful to the users to provide cross references.

HKFRS 8.IN11

92 HKFRS 8 requires a "management approach" to reporting the financial performance of operating segments, i.e. the financial statements should report segment information which is consistent with the segment information as is reviewed by an entity's "chief operating decision maker" (CODM).

HKFRS 8.7

Identifying an entity's "chief operating decision maker" (CODM) is therefore key to the identification of operating segments under HKFRS 8. Paragraph 7 of HKFRS 8 defines the CODM as a function rather than an individual with a specific title. That function is to allocate resources to and assess the performance of operating segments of an entity. The CODM usually is the highest level of management responsible for the entity's overall resource allocation and performance assessment. In this regard, the standard states that often the CODM of an entity is its chief executive officer or the chief operating officer, but it may be a group consisting of, for example, the entity's executive directors or others. In any event, a key point to note is that each reporting entity can only have one "CODM". For example, when the reporting entity is a group (as is almost always the case for entities within the scope of HKFRS 8), the CODM is the highest level of executive management within the group.

HKFRS 8.1

93 Operating segments are identified on the basis of internal reports that an entity's CODM reviews regularly in allocating resources to segments and in assessing their performance, and may include start-up operations, vertically integrated operations and joint ventures and associates. In HK Listco's case, the main division of the group, electronics, is split further into 3 geographical segments, and also the group's share of the revenue of the group's joint venture is included in "segment revenue" for the contracting activity segment, as in HK Listco's assumed circumstances, this is consistent with the way that information is provided internally to the most senior executive management of the group.

HKFRS 8.12

94 Material operating segments that are identified in the internal reports that an entity's CODM reviews may only be aggregated for the purposes of reporting segment information in the financial statements if aggregation is consistent with the core principle in HKFRS 8 (as set out in paragraph 1 of HKFRS 8), the segments have similar economic characteristics and those segments are similar in each of the characteristics set out in paragraph 12 of HKFRS 8. If these criteria are met, then aggregation is allowed but not required i.e. management may choose not to aggregate and could therefore instead present information to users as it is presented internally to the CODM. As also mentioned in footnote 95 below, "whether segments have been aggregated" is identified as one of the items of "general information" about factors used to identify reportable segments that should be disclosed in accordance with paragraph 22 of HKFRS 8. When segments have been aggregated, judgement made by management in applying the aggregation criteria is also required to be disclosed.

HKFRS 8.25 & 26

95 Consistent with the management approach, HKFRS 8 requires the amounts of each segment item reported to be the measure reported internally to the CODM. This means that segment information disclosed in the financial statements should be prepared using non-HKFRS policies if this is how the information reported to the CODM is prepared. However, where the CODM internally uses more than one segment measure, HKFRS 8 requires the entity to report those measures determined in accordance with measurement principles which management believes are most consistent with those used in measuring the corresponding amount in the entity's financial statements.

To help users understand the segment information presented and its limitations in the context of an entity's financial statements, HKFRS 8 requires entities to disclose the following:

HKFRS 8.22(a)

- general information about the factors used to identify the entity's reportable segments and the extent to which operating segments have been aggregated for disclosure purposes;

HKFRS 8.22(aa)

- judgements made by management in applying the aggregation criteria in paragraph 12 of HKFRS 8;

HKFRS 8.27

- information about the measurement basis adopted, such as the nature of any differences between the measurements used in reporting segment information and those used in the entity's financial statements, the nature of any changes from prior periods in the measurement methods used, and the nature and effect of any asymmetrical allocations to reportable segments (for example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment); and

HKFRS 8.28

- reconciliations of total reportable segment revenue, total profit or loss and other material amounts disclosed for reportable segments to corresponding consolidated totals in the entity's financial statements with all material reconciling items separately identified and described. Reconciliations of total reportable segment assets to consolidated assets and segment liabilities to consolidated liabilities are also required if segment assets and segment liabilities have been reported under paragraph 23 of HKFRS 8.

(b) Segment reporting[92]

HKFRS 8.20 & 22

The group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the group's most senior executive management for the purposes of resource allocation and performance assessment[92], the group has presented the following six reportable segments[93]. No operating segments have been aggregated to form the following reportable segments[94].

- *Electronics (Hong Kong/South East Asia/Rest of the world): given the importance of the electronics division to the group, the group's electronics business is segregated further into three reportable segments on a geographical basis, as the divisional managers for each of these regions report directly to the senior executive team. All three segments primarily derive their revenue from the sale of household electronic products and building management systems. These products are either sourced externally or are manufactured in the group's manufacturing facilities located primarily in Hong Kong, with the remainder of the manufacturing facilities being in South East Asia, (specifically Malaysia and Singapore). The "rest of the world" segment covers sales of electronic products to customers in the United States, Germany, France and other European countries, some of which are sourced from within the group.*
- *Property leasing: this segment leases office premises to generate rental income and to gain from the appreciation in the properties' values in the long term. Currently the group's investment property portfolio is located in Hong Kong and the Mainland China.*
- *Property development: this segment develops and sells office premises and residential properties. Currently the group's activities in this regard are carried out in Hong Kong.*
- *Construction contracts: this segment constructs office premises and residential buildings for external customers and for group companies. Currently the group's activities in this regard are carried out in Singapore, Malaysia and the Mainland China. The activities carried out in the Mainland China are through a joint venture.*

(i) Segment results, assets and liabilities[95]

HKFRS 8.27(c) & (d)

For the purposes of assessing segment performance and allocating resources between segments, the group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of interests in associates, investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include provision for electronic product warranties, trade creditors, accruals and bills payable attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segments.

HKFRS 8.27(b) & (f)

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the group's share of revenue and expenses arising from the activities of the group's joint venture. However, other than reporting inter-segment sales of electronic products, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured. In particular, all research and development facilities and activities, patents and trademarks relating to the electronics division are allocated to the Hong Kong segment.

HKFRS 8.27(b)

The measure used for reporting segment profit is "adjusted EBITDA" i.e. "adjusted earnings before interest, taxes, depreciation and amortisation", where "interest" is regarded as including investment income and "depreciation and amortisation" is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates, directors' and auditors' remuneration and other head office or corporate administration costs.

HKFRS 8.27(a)

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales and the group's share of the joint venture's revenue), interest income and expense from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

HKFRS 8.23

[96] HKFRS 8 requires an entity to report a measure of profit or loss for each reportable segment. It also includes the following disclosure requirements:

- A measure of assets and/or liabilities for each reportable segment should be disclosed if such amounts are provided regularly to the CODM.
- The following should be disclosed about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the CODM or are otherwise provided regularly to the CODM even if not included in that measure of segment profit or loss:
  - revenues from external customers;
  - revenues from transactions with other operating segments of the same entity;
  - interest revenue;
  - interest expense;
  - depreciation and amortisation;
  - material items of income and expense disclosed in accordance with HKAS 1;
  - the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
  - income tax expense or income; and
  - material non-cash items other than depreciation and amortisation.

In the fictitious circumstances of HK Listco, although depreciation and amortisation expense is not included in the measure of profit or loss that is reviewed by the group's CODM, such amounts are provided to the CODM who uses this information in evaluating the performance of the entity's segments. Accordingly, disclosure of depreciation and amortisation expense by each reportable segment is disclosed.

HKAS 7.50(d)

In addition to the disclosure of segment results required by HKFRS 8, HKAS 7 encourages the disclosure of additional information about the amount of cash flows arising from the operating, investing and financing activities of each reportable segment. Although not explicitly stated in HKAS 7, we presume that such information should only be disclosed on a segment basis if such information is included in the information reported internally to the CODM.

Information regarding the group's reportable segments as provided to the group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.[96]

		Electronics – Hong Kong		Electronics — South East Asia		Electronics — Rest of the world		Property leasing		Property development		Construction contracts[97]		Total	
		2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
HKFRS 8.23(a)	Revenue from external customers	**610,436**	528,377	**135,338**	110,450	**200,002**	201,610	**8,535**	6,211	**105,192**	120,766	**399,321**	331,595	**1,458,824**	1,299,009
HKFRS 8.23(b)	Inter-segment revenue	**104,109**	103,907	**1,251**	928	**-**	-	**-**	-	**-**	-	**-**	-	**105,360**	104,835
	Reportable segment revenue	**714,545**	632,284	**136,589**	111,378	**200,002**	201,610	**8,535**	6,211	**105,192**	120,766	**399,321**	331,595	**1,564,184**	1,403,844
HKFRS 8.23	**Reportable segment profit (adjusted EBITDA)**	**94,158**	85,412	**20,897**	18,847	**19,255**	16,385	**25,420**	11,694	**24,258**	23,290	**14,982**	13,162	**198,970**	168,790
HKFRS 8.23(c)	Interest income from bank deposits[98]	**1,205**	2,370	**242**	293	**756**	1,055	**-**	-	**-**	-	**-**	-	**2,203**	3,718
	Interest expense	**(10,149)**	(8,065)	**(2,850)**	(1,750)	**-**	-	**(1,250)**	(1,400)	**-**	-	**-**	-	**(14,249)**	(11,215)
HKFRS 8.23(e)	Depreciation and amortisation for the year	**(11,598)**	(9,591)	**(2,735)**	(2,148)	**-**	-	**(560)**	(490)	**(1,175)**	(1,133)	**(553)**	(480)	**(16,621)**	(13,842)
HKAS 36.129 & HKFRS 8.23(i)	Impairment of														
	- plant and machinery	**-**	-	**-**	-	**-**	-	**-**	-	**(1,200)**	-	**-**	-	**(1,200)**	-
	- goodwill	**(184)**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(184)**	-
HKFRS 8.23	**Reportable segment assets**	**341,454**	309,421	**35,344**	26,900	**44,074**	41,050	**88,091**	69,036	**135,556**	123,386	**94,288**	88,540	**738,807**	658,333
HKFRS 8.24(a)	(including investment in joint venture)[99]	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**2,765**	2,095	**2,765**	2,095
HKFRS 8.24(b)	Additions to non-current segment assets during the year[99]	**20,500**	19,460	**1,700**	-	**-**	-	**--**	-	**4,665**	2,679	**1,371**	988	**28,236**	23,127
HKFRS 8.23	**Reportable segment liabilities**	**155,189**	142,104	**48,982**	44,617	**33,470**	29,490	**10,154**	10,164	**49,290**	50,510	**594**	1,067	**297,679**	277,952

HKFRS 8.16 & 6 — 97 In this illustration it is assumed that the construction contracts activity is separately identified as an operating segment in information provided internally to the CODM and that management has decided that it would be useful information to disclose this segment separately. If instead management had decided that the "construction contracts" segment was not sufficiently material to be regarded as a reportable segment, it could have labelled the amounts relating to this segment (and any other immaterial operating segments) as relating to "all other segments" in accordance with paragraph 16 of HKFRS 8. However, given that in HK Listco's assumed circumstances "construction contracts" is separately identified as an operating segment in information provided to HK Listco's CODM, it would not have been acceptable to simply include these amounts in the "unallocated amounts" disclosed in the reconciliation under paragraph 28 of HKFRS 8. Where an "all other segments" category is presented, the sources of revenue in this category should be described (HKFRS 8.16).

HKFRS 8.23 — 98 In respect of the disclosure of segment interest revenue and interest expense, an entity should report interest revenue separately from interest expense for each reportable segment (assuming this information is reported to and used by the CODM) unless a majority of the segment's revenues are from interest and the CODM relies primarily on net interest revenue in making decisions about the segment (e.g. if the segment is a financial services segment). In that situation, the entity may report that segment's interest revenue net of interest expense and disclose that it has done so.

HKFRS 8.24 — 99 An entity should disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the CODM or are otherwise regularly provided to the CODM even if not included in the measure of segment assets:

- the amount of investment in associates and joint ventures accounted for by the equity method; and
- the amounts of additions to non-current assets (other than non-current financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts).

(ii) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

HKFRS 8.28(a)

	2017	2016
Revenue	***$'000***	*$'000*
Reportable segment revenue	***1,564,184***	*1,403,844*
Elimination of inter-segment revenue	***(105,360)***	*(104,835)*
Elimination of group's share of revenue of joint venture	***(373,929)***	*(313,769)*
Consolidated revenue (note 3(a))	***1,084,895***	*985,240*

HKFRS 8.28(b)

	2017	2016
Profit	***$'000***	*$'000*
Reportable segment profit	***198,970***	*168,790*
Elimination of inter-segment profits	***(26,340)***	*(26,208)*
Reportable segment profit derived from group's external customers and joint venture	***172,630***	*142,582*
Share of profits less losses of associates	***13,830***	*12,645*
Other income	***10,448***	*11,652*
Depreciation and amortisation	***(16,727)***	*(14,000)*
Finance costs	***(16,536)***	*(12,689)*
Impairment losses on non-current assets	***(1,384)***	-
Unallocated head office and corporate expenses	***(13,003)***	*(12,507)*
Consolidated profit before taxation	***149,258***	*127,683*

HKFRS 8.28(c)

	2017	2016
Assets	***$'000***	*$'000*
Reportable segment assets	***738,807***	*658,333*
Elimination of inter-segment receivables	***(2,260)***	*(1,650)*
	736,547	*656,683*
Interests in associates	***40,308***	*29,478*
Non-current financial assets	***60,930***	*48,432*
Trading securities	***58,331***	*58,020*
Deferred tax assets	***2,539***	*3,495*
Unallocated head office and corporate assets	***8,689***	*6,334*
Consolidated total assets	***907,344***	*802,442*

HKFRS 8.28(d)

	2017	2016
Liabilities	***$'000***	*$'000*
Reportable segment liabilities	***297,679***	*277,952*
Elimination of inter-segment payables	***(2,260)***	*(1,650)*
	295,419	*276,302*
Current tax liabilities	***6,750***	*6,950*
Deferred tax liabilities	***19,194***	*13,850*
Unallocated head office and corporate liabilities	***25,534***	*19,063*
Consolidated total liabilities	***346,897***	*316,165*

HKFRS 8.33

(iii) Geographic information[100]

The following table sets out information about the geographical location of (i) the group's revenue from external customers and (ii) the group's investment property, other property, plant and equipment, interests in leasehold land held for own use under operating leases, intangible assets, goodwill and interests in associates and joint venture ("specified non-current assets")[101]*. The geographical location of customers is based on the location at which the services were provided or the goods delivered*[102]*. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interests in associates and joint venture*[102]*.*

	Revenues from external customers		*Specified non-current assets*	
	2017	*2016*	***2017***	*2016*
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong (place of domicile)[103]	***767,083***	*704,506*	***214,529***	*159,771*
Mainland China	***1,750***	*1,220*	***72,765***	*50,095*
United States	***129,528***	*100,600*	**-**	-
Singapore	***43,468***	*22,174*	***30,478***	*36,472*
Malaysia	***32,592***	*15,730*	***42,366***	*39,307*
Germany	***35,268***	*45,450*	**-**	-
France	***18,774***	*29,230*	**-**	-
Other countries	***56,432***	*66,330*	**-**	-
	317,812	*280,734*	***145,609***	*125,874*
	1,084,895	*985,240*	***360,138***	*285,645*

HKFRS 8.31-34 — 100 HKFRS 8 requires disclosure of information about an entity's products and services, geographical areas and major customers, regardless of the entity's organisation (i.e. even if the entity has a single reportable segment). These minimum disclosures, referred to as "entity-wide disclosures" in HKFRS 8, should be based on the financial information that is used to produce the entity's financial statements (i.e. not based on the management approach) and are required if they are not provided as part of the reportable segment information required by the standard. In HK Listco's financial statements, we have included the information relating to geographic location of customers and non-current assets here in Note 3(b) "Segment reporting" and included the information on the entity's products and services and major customers in Note 3(a) "Revenue". Other approaches to disclosing this information are also acceptable provided they meet the basic disclosure requirement of paragraph 113 of HKAS 1, to present notes in a systematic manner.

HKFRS 8.33 — 101 As part of the required entity-wide disclosures, HKFRS 8 requires the disclosure of certain geographic information, unless the necessary information is not available and the cost to develop it would be excessive. The information required to be analysed geographically is (a) revenue from external customers and (b) non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts. In respect of (b), in our view, users may find it helpful if the disclosure identified which of the group's non-current assets are included in this disclosure, rather than simply repeating the words in HKFRS 8.33(b) concerning "non-current assets other than financial instruments, deferred tax ...". This description will therefore vary from one entity to the next, depending on which non-current assets they carry.

HKFRS 8.33 — 102 HKFRS 8 requires the revenue and specified non-current assets to be "attributed" to countries. This is intended to allow flexibility to entities, for example it allows them to decide for themselves how to attribute revenue to countries in situations where the goods are shipped to one country but the invoices are sent to another country (see paragraph 106 of appendix A to the Basis of conclusions to HKFRS 8). Given this flexibility, entities are required to disclose the attribution basis used.

HKFRS 8.33

[103] Paragraph 33 of HKFRS 8 states that revenue and non-current asset information is required to be analysed by (a) the entity's country of domicile and (b) all foreign countries in total. To the extent that a foreign operation is material, further disclosure by country is required, and it would not be adequate simply to identify broad geographic areas of contiguous countries (e.g. Europe) (see paragraph 105 of appendix A to the Basis of conclusions to HKFRS 8). An entity is allowed, however, to provide sub-totals of the geographic information by groups of countries, in addition to the required information by country.

There is no further explanation as to the meaning of the entity's "country of domicile" when the disclosures are made on a consolidated basis and the meaning may be particularly unclear when the parent company is an investment holding company incorporated in an off-shore jurisdiction. In our view, in such circumstances, this disclosure may be taken to refer to the country which the group regards as its "home country", for example, where it has the majority of its operations, workforce and/or management headquarters. Furthermore, in our view, given the differences between the economic and legal systems and environment in Hong Kong and the Mainland China, it would be useful for users to disclose amounts relating to each of these regions separately, even though they are part of the same country. If in any doubt about the users being confused by a country, or part of a country, being identified as where the entity is domiciled, further disclosure should be given about how the entity has identified its "country of domicile".

HKAS 18.35(b)

4 OTHER INCOME[89]

		2017	2016
		$'000	$'000
HKFRS 7.20(b)	Total interest income on financial assets not at fair value through profit or loss[104]	**2,993**	3,998
	Dividend income from securities	**610**	572
HKAS 20.39(b)	Government grants[105]	**205**	-
	Rentals receivable from operating leases, other than those relating to investment property	**450**	3,400
	Financial guarantee contracts issued	**2**	2
A16(4)(1)(a)	Net loss on sale of property, plant and equipment[106]	**(83)**	-
HKFRS 7.20(a)(i)	Net realised and unrealised gains on trading securities[106]	**4,966**	3,780
HKFRS 7.20(a)(ii)&(e)	Available-for-sale securities: reclassified from equity (note 9(b))		
	- on disposal	**1,305**	-
	- on impairment	**-**	(100)
		10,448	11,652

HKAS 20.39(b)

In 2017, the group successfully applied for funding support from the Commercial Research and Development Fund ("the Fund"), set up by the [•] Government. The purpose of the Fund is to encourage innovation by granting financial assistance to commercial entities whose research and development projects meet certain criteria.

HKFRS 7.20(b) & (d)

104 Paragraph 20(b) of HKFRS 7 requires disclosure of total interest income calculated using the effective interest method for financial assets that are not carried at fair value through profit or loss. This would include, for example, interest income recognised on receivables carried at amortised cost (i.e. due to deferred payment terms), interest income on held-to-maturity securities and available-for-sale debt securities, as well as interest earned on bank deposits.

In addition, paragraph 20(d) of HKFRS 7 requires separate disclosure of interest income on impaired financial assets, accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Therefore, further analysis will be required over and above that illustrated here when an entity has impaired financial assets.

HKAS 20.29

105 According to paragraph 29 of HKAS 20, government grants relating to income may either be reported as income (as is shown here) or deducted in reporting the related expense.

HKAS 1.34 & 35

HKFRS 7.20(a)(i)

106 In accordance with HKAS 1, the results of transactions which are incidental to the main revenue generating activities are generally presented on a net basis (for example, the net gain or loss arising from the disposal of a non-current asset). In addition, HKAS 1 states that gains and losses arising from a group of similar transactions (for example, gains and losses arising on financial instruments held for trading during the period) are reported together on a net basis, unless separately material. However, requirements of other more specific HKFRSs may restrict the extent to which amounts may be aggregated. For example, HKFRS 7 requires net gains or losses on financial instruments at fair value through profit or loss to be separately analysed between those arising on financial instruments designated as such upon initial recognition and those arising on instruments which are classified as held for trading in accordance with HKAS 39.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

		2017	2016
		$'000	$'000
	(a) Finance costs		
	Interest on bank loans and other borrowings (note 22(c))	**18,437**	14,229
	Finance charges on obligations under finance leases (note 22(c))	**505**	490
	Dividends on redeemable preference shares (note 22(c) & 32(b))	**200**	200
	Other interest expense (note 22(c))	**1,272**	880
HKFRS 7.20(b)	Total interest expense on financial liabilities not at fair value through profit or loss[107]	**20,414**	15,799
HKAS 23.26(a)	Less: interest expense capitalised into properties under development* (note 22(c))	**(3,780)**	(3,030)
		16,634	12,769
HKFRS 7.23(d)	Interest-rate swaps: cash flow hedges, reclassified from equity (note 9(b))[108]	**(98)**	(80)
		16,536	12,689

HKAS 23.26(b) * The borrowing costs have been capitalised at a rate of [●] - [●]% per annum (2016: [●] - [●]%).

		2017	2016
		$'000	$'000
HKAS 1.104	**(b) Staff costs#[109]**		
HKAS 19.53	Contributions to defined contribution retirement plan	**9,972**	9,252
HKAS 19.135(b)	Expenses recognised in respect of defined benefit retirement plans (note 28(a)(v))	**13,852**	14,010
HKFRS 2.50 & 51(a)	Equity-settled share-based payment expenses (note 29)	**1,658**	1,625
	Salaries, wages and other benefits	**386,999**	354,525
		412,481	379,412

HKFRS 7.20(b) [107] Paragraph 20(b) of HKFRS 7 requires disclosure of total interest expense calculated using the effective interest method for financial liabilities that are not carried at fair value through profit or loss. This would include, for example, interest expense recognised on payables carried at amortised cost (i.e. due to deferred payment terms), finance charges on finance leases, as well as interest incurred on bank loans. However, it would not include the unwinding of discounts on provisions, as provisions are not a type of financial instrument.

HKFRS 7.23 & 24 [108] For cash flow hedges, paragraphs 23(d) and (e) of HKFRS 7 require disclosure of the change in the fair value of the hedging instruments that was reclassified from equity, distinguishing between the amount reclassified to profit or loss for the year (showing the amount included in each line item in the statement of profit or loss/the statement of profit or loss and other comprehensive income) and that transferred to the initial measurement of a non-financial asset or non-financial liability in a hedged highly probable forecast transaction. In addition, paragraph 24 of HKFRS 7 requires separate disclosure of the amount of ineffectiveness recognised in profit or loss on cash flow hedges and hedges of net investments in foreign operations.

If fair value hedge accounting is also used (for example, a hedge of fair value interest rate risk associated with a fixed rate interest-bearing liability using an interest rate swap), separate disclosure of gains or losses recognised in profit or loss arising from re-measuring the hedging instrument and on the hedged item attributable to the hedged risk would also be required by paragraph 24(a) of HKFRS 7.

As with all HKFRSs, the above requirements apply only if the items are material.

HKAS 1.104, HKAS 19.53, 135(b) HKFRS 2.50, 51a [109] Disclosure of staff costs in this note would not normally be required when the analysis of expenses is presented using a classification based on the nature of expenses, rather than their function. However, disclosures of the amounts recognised as an expense for defined contribution plans and for share-based payment transactions are still required under the disclosure requirements of HKAS 19.53 and HKFRS 2.51(a), respectively. Although disclosure of expense recognised for defined benefit plans is not specifically required by HKAS 19, this information may be necessary in order to satisfy the disclosure objective of HKAS 19 – giving information that identifies the amounts in the financial statements arising from defined benefit plans. See footnote 178 on page 116 for further details of HKAS 19's disclosure objectives.

HKAS 17.35(c) [110] Separate disclosure of any contingent rents and sublease payments should be also made.

A14(M) A16(34) [111] In accordance with paragraph M of Appendix 14 to the MBLRs, a listed issuer is required to disclose an analysis of auditors' remuneration in respect of both audit and non-audit services in the corporate governance report (CGR) included in its annual report. The analysis must include, in respect of each significant non-audit service assignment, details of the nature of the services and the fees paid. Where a listed entity chooses to present such analysis in its annual financial statements, the issuer must make a clear and unambiguous reference to its annual financial statements from the CGR. The CGR must not only contain a cross-reference without any discussion of the matter.

Sch 4, Part 2 [112] Under the CO, companies are required to disclose, under a separate heading, the amount of the remuneration of the auditor. As defined in the CO, "remuneration" includes any sums paid by the company in respect of the auditor's expenses. This disclosure is required to be made in the financial statements.

HKAS 40.75(f) [113] Where the entity has investment properties which were vacant during the period, or otherwise not generating rental income, the entity should analyse direct operating expenses (including repairs and maintenance) between that amount relating to investment properties which generated rental income and that amount relating to investment properties that did not generate rental income.

CP [114] Although there is no requirement for such disclosure, it is best practice to show the extent of duplication in the disclosures made in this note.

(c) Other items

Reference		2017 $'000	2016 $'000
HKAS 1.104	Amortisation#		
	- land lease premium (note 11(a))	**335**	335
	- intangible assets (note 12)	**2,680**	1,500
		3,015	1,835
HKAS 1.104	Depreciation# (note 11(a))	**13,712**	12,165
	Impairment losses		
HKFRS 7.20(e)	- trade and other receivables (note 20(b))	**2,300**	1,720
HKAS 36.126(a)	- plant and machinery (note 11(a))	**1,200**	-
	- goodwill (note 13)	**184**	-
		3,684	1,720
HKAS 17.35(c)	Operating lease charges: minimum lease payments[110]	**3,810**	3,450
HKAS 21.52(a)	Net foreign exchange loss/(gain)	**1,250**	(5,251)
	Net (gain)/loss on forward foreign exchange contracts		
HKFRS 7.23(d)	- net gain on cash flow hedging instruments reclassified from equity (note 9(b))#[108]	**(300)**	(280)
HKFRS 7.20(a)(i)	- net (gain)/loss on other forward foreign exchange contracts	**(525)**	3,580
		425	(1,951)
CP	Auditors' remuneration[111]		
Sch 4, Part 2, Section 1	- audit services[112]	**1,062**	885
CP	- tax services	**200**	188
CP	- other services	**100**	80
		1,362	1,153
HKAS 38.126	Research and development costs (other than amortisation costs)	**6,750**	4,560
HKAS 37.84(b)	Increase in provisions (note 31)	**12,400**	12,000
HKAS 40.75(f)	Rentals receivable from investment properties less direct outgoings of $1,375,000 (2016: $1,037,000)[113]	**(7,160)**	(5,174)
HKAS 2.36(d)	Cost of inventories# (note 19(c))	**786,042**	719,370

\# Cost of inventories includes $315,678,000 (2016: $281,865,000) relating to staff costs, depreciation and amortisation expenses, operating lease charges and net gain on cash flow hedging instruments reclassified from equity, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.[114]

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

HKAS 12.79

(a) Taxation in the consolidated statement of profit or loss represents:

		2017	2016
		$'000	$'000
CP	**Current tax - Hong Kong Profits Tax**[115]		
HKAS 12.80(a)	Provision for the year	**13,000**	14,849
HKAS 12.80(b)	Under/(over)-provision in respect of prior years	**61**	(300)
		13,061	14,549
CP	**Current tax - Overseas**[115]		
HKAS 12.80(a)	Provision for the year	**7,769**	6,950
HKAS 12.80(b)	Over-provision in respect of prior years	**(619)**	-
		7,150	6,950
	Deferred tax		
HKAS 12.80(c)	Origination and reversal of temporary differences	**4,264**	(172)
	Effect on deferred tax balances at 1 January resulting from a change in tax rate	**-**	8
		4,264	(164)
		24,475	21,335

HKAS 12.81(c)

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2016-17 subject to a maximum reduction of $20,000 for each business (2016: a maximum reduction of $20,000 was granted for the year of assessment 2015-16 and was taken into account in calculating the provision for 2016). Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

[115] Under the predecessor Companies Ordinance (Cap. 32) and the previous version of Appendix 16 to the MBLRs, the amounts of tax payable to the Hong Kong tax authorities and overseas tax authorities needed to be separately disclosed. Such separation is no longer required but we expect that it may continue to be a common practice to separately disclose these amounts if the information is considered useful.

HKAS 12.81(c)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates[116]:

	2017	2016
	$'000	$'000
Profit before taxation	**149,258**	127,683
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**26,390**	22,580
Tax effect of non-deductible expenses	**397**	602
Tax effect of non-taxable income[117]	**(2,176)**	(1,940)
Tax effect of unused tax losses not recognised	**233**	150
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**-**	8
Statutory tax concession	**(160)**	(160)
Over-provision in prior years	**(558)**	(300)
Others	**349**	395
Actual tax expense	**24,475**	21,335

HKAS 12.81(c)

116 HKAS 12 requires disclosure of one or other of the following:
(a) a reconciliation between the actual tax expense (or income) and the notional tax calculated at the applicable tax rate; and/or
(b) a reconciliation between the average effective tax rate and the applicable tax rate.

The entity is free to choose which approach to adopt or to adopt both.

HKAS 12.85

The "applicable tax rate" should be the rate that provides the most meaningful information to the users of the financial statements. This may be the domestic tax rate in the country in which the entity is domiciled or the tax rates of the various tax jurisdictions concerned, where an entity operates in more than one jurisdiction.

117 Where no further tax will be payable by the group on the distribution of profits from associates and joint ventures (i.e. dividend income is tax free), the share of profit recognised under the equity method will be a form of non-taxable income, which would be included as a reconciling item in the tax reconciliation, either separately or together with other forms of non-taxable income.

7 DIRECTORS' EMOLUMENTS[118, 119]

S383(1), A16(24)
HKAS 24.17

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows [120]:

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments (note)[121]	2017 Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Chairman							
Hon WS Tan	**150**	**-**	**-**	**-**	**150**	**-**	**150**
Executive directors							
SK Ho	**50**	**1,210**	**215**	**120**	**1,595**	**-**	**1,595**
YK Ng	**50**	**1,180**	**200**	**115**	**1,545**	**125**	**1,670**
PK Smith	**50**	**1,290**	**205**	**125**	**1,670**	**200**	**1,870**
CJ Wang	**20**	**330**	**55**	**30**	**435**	**-**	**435**
BC Tong (resigned on 31 March 2017)	**10**	**165**	**25**	**15**	**215**	**(50)**	**165**
Independent non-executive directors							
TY Sham	**100**	**-**	**-**	**-**	**100**	**-**	**100**
YH Li	**100**	**-**	**-**	**-**	**100**	**-**	**100**
AC Man	**100**	**-**	**-**	**-**	**100**	**-**	**100**
	630	**4,175**	**700**	**405**	**5,910**	**275**	**6,185**

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118 The new CO's disclosure requirements about directors' remunerations are similar to the requirements of the predecessor Companies Ordinance (Cap. 32). However, the requirements have been expanded and/or clarified in the C(DIBD)R, particularly in respect of elements of a director's package other than basic salary and bonus. For further details about the key changes introduced by the C(DIBD)R in respect of directors' remuneration, please refer to KPMG's Briefing Note 1 "What's new for financial statements?".

C(DIBD)R.4, 5&6

119 It should be noted that "directors' emoluments" are broadly defined in the C(DIBD)R and include, for example, emoluments in respect of accepting office as director, non cash benefits and amounts paid into a retirement scheme on the directors' behalf (such as MPF contributions paid on behalf of a director). This amount of emoluments should be split into two categories: (1) amounts relating to being a director of the company or of the company's subsidiary (i.e. directors' fees) and (2) amounts relating to other services in connection with the management of the affairs of the company or its subsidiaries. The nature of any non-cash benefit should also be disclosed.

In addition to directors' emoluments, the C(DIBD)R requires disclosure of the following types of directors' remuneration:

- directors' retirement benefits*;
- payments made, or benefit provided in respect of termination of directors' services; and
- consideration provided to or receivable by third parties for making available directors' services.

* The term "directors' retirement benefits" is referring to amounts arising on or after or in connection with a directors' retirement, and excludes amounts paid out of a scheme if the contributions into the scheme were substantially adequate for the maintenance of the scheme.

In these illustrative financial statements, it is assumed that HK Listco only has directors' emoluments to disclose. When entities have other types of directors' remuneration in addition to directors' emoluments, they should disclose each of them separately. In that case, the note should be labelled as "Directors' remuneration" or any terms as appropriate to suit the content of the note.

120 Unlike section 383(1) of the CO under which the analysis of directors' remuneration can be presented on a no-names basis, paragraph 24 of Appendix 16 to the MBLRs requires listed companies to show details of directors' and past directors' emoluments, by name. References to "director" in that paragraph include a chief executive who is not a director. In the case of a PRC issuer, directors or past directors include supervisors and past supervisors (as appropriate) (paragraph 24.4 of Appendix 16).

The SEHK has also further clarified in one of its supplementary materials on Listing Rules and Rules Changes, *Frequently asked questions on rule amendments relating to corporate governance and listing criteria issues*, dated 31 March 2004, that comparative figures for individual directors' emoluments must also be disclosed. The above analysis illustrates one of the possible formats for such disclosure. Paragraph B.1.8 of Appendix 14 to the MBLRs also recommends that issuers disclose details of any remuneration payable to members of senior management on an individual and named basis to the same extent as is required for directors.

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments[121]	2016 Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Chairman							
Hon WS Tan	150	-	-	-	150	-	150
Executive directors							
SK Ho	50	1,090	150	100	1,390	-	1,390
YK Ng	50	1,060	125	100	1,335	125	1,460
PK Smith	50	1,160	150	110	1,470	200	1,670
BC Tong	40	600	70	60	770	50	820
Independent non-executive directors							
TY Sham	100	-	-	-	100	-	100
YH Li	100	-	-	-	100	-	100
AC Man	100	-	-	-	100	-	100
	640	3,910	495	370	5,415	375	5,790

Note:

These represent the estimated value of share options granted to the directors under the company's share option scheme. The value of these share options is measured according to the group's accounting policies for share-based payment transactions as set out in note 1(w)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share option scheme" in the directors' report and note 29. In addition, the company has given a guarantee on behalf of a director to a finance company. This benefit in kind is disclosed in note 23.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

A16(25)
HKAS 24.17

Of the five individuals with the highest emoluments, three (2016: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2016: two) individuals are as follows:

		2017	2016
		$'000	$'000
A16(25)(1)	*Salaries and other emoluments*	**1,500**	1,400
A16(25)(3)	*Discretionary bonuses*	**150**	140
	Share-based payments	**150**	150
A16(25)(2)	*Retirement scheme contributions*	**140**	130
		1,940	1,820

A16(25)(6)

The emoluments of the two (2016: two) individuals with the highest emoluments are within the following bands:

$			**2017 Number of individuals**	2016 Number of individuals
Nil	-	*1,000,000*	**1**	2
1,000,001	-	*1,500,000*	**1**	-

C(DIBD)R.4(2)(b) [121] The CO requires entities to disclose the nature of any non-cash benefits included in the total amounts disclosed for emoluments, retirement benefits, compensation or consideration paid to third parties. However, it is not necessary to separately disclose the monetary amounts of those non-cash benefits included in the totals. In the illustration above this requirement is met by separately disclosing share-based payments. Other examples could include allowing the director to live in accommodation owned by the company rent-free.

9 OTHER COMPREHENSIVE INCOME

HKAS 1.90

(a) Tax effects relating to each component of other comprehensive income

	2017			2016		
	Before-tax amount $'000	**Tax (expense)/ benefit $'000**	**Net-of-tax amount $'000**	Before-tax amount $'000	Tax (expense)/ benefit $'000	Net-of-tax amount $'000
Exchange differences on translation of:						
- financial statements of overseas subsidiaries	**(1,806)**	**-**	**(1,806)**	797	-	797
- related borrowings	**494**	**-**	**494**	(219)	-	(219)
	(1,312)	**-**	**(1,312)**	578	-	578
Surplus on revaluation of land and buildings held for own use	**27,290**	**(2,138)**	**25,152**	7,158	(846)	6,312
Cash flow hedge: net movement in hedging reserve	**(583)**	**102**	**(481)**	(540)	95	(445)
Remeasurement of net defined benefit liability	**(9)**	**-**	**(9)**	(10)	-	(10)
Available-for-sale securities: net movement in fair value reserve	**1,119**	**-**	**1,119**	300	-	300
Other comprehensive income	**26,505**	**(2,036)**	**24,469**	7,486	(751)	6,735

HKAS 1.92-94

(b) Components of other comprehensive income, including reclassification adjustments

	2017 $'000	2016 $'000
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**51**	40
HKFRS 7.23(e) Amounts transferred to initial carrying amount of hedged items	**(236)**	(220)
HKFRS 7.23(d) Reclassification adjustments for amounts transferred to profit or loss:		
- finance costs (note 5(a))	**(98)**	(80)
- cost of inventories (note 5(c))	**(300)**	(280)
Net deferred tax credited to other comprehensive income	**102**	95
Net movement in the hedging reserve during the period recognised in other comprehensive income	**(481)**	(445)
Available-for-sale securities:		
Changes in fair value recognised during the period	**2,424**	200
Reclassification adjustments for amounts transferred to profit or loss:		
HKFRS 7.20(a)(ii) - gains on disposal (note 4)	**(1,305)**	-
HKFRS 7.20(e) - impairment losses (note 4)	**-**	100
Net movement in the fair value reserve during the period recognised in other comprehensive income	**1,119**	300

10 EARNINGS PER SHARE

(a) Basic earnings per share

HKAS 33.70(a)&(b)

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of $114,367,000 (2016: $96,181,000) and the weighted average of 99,531,000 ordinary shares (2016: 99,000,000 shares after adjusting for the bonus issue in 2017)[122] in issue during the year, calculated as follows:

HKAS 33.70(b)

(i) Weighted average number of ordinary shares

	2017 **'000**	2016 '000
Issued ordinary shares at 1 January	**90,000**	90,000
Effect of bonus issue (note 32(c)(ii))	**9,000**	9,000
Effect of shares repurchased (note 32(c)(iii))	**(386)**	-
Effect of share options exercised (note 32(c)(iv))	**917**	-
Weighted average number of ordinary shares at 31 December	**99,531**	99,000

(b) Diluted earnings per share

HKAS 33.70(a)&(b)

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the company of $114,893,000 (2016: $96,704,000) and the weighted average number of ordinary shares of 100,470,000 shares (2016: 99,664,000 shares after adjusting for the bonus issue in 2017)[122], calculated as follows:

HKAS 33.26-27, 64

122 Paragraph 26 of HKAS 33 requires that for the purpose of calculating earnings per share, the weighted average number of ordinary shares outstanding during the period and for all periods presented should be adjusted for events, other than conversion of potential ordinary shares, that have changed the number of ordinary shares outstanding without a corresponding change in resources. Paragraph 27 lists examples of such events: capitalisation or bonus issue, bonus element in any other issue (e.g. bonus element in a rights issue), share split and reverse share split.

Paragraph 64 of HKAS 33 states that the requirement to restate the per share calculations for all periods presented applies even if the change occurs after the end of the reporting period (but before the financial statements are authorised for issue). In that case, the fact that per share calculations reflect the post balance sheet change in the number of shares should be disclosed. In our view, this requirement in paragraph 64 does not apply to a rights issue which occurred after the end of the reporting period. This is because the computation of the bonus element in a rights issue requires information on the market price of the shares immediately before exercise of the rights i.e. relates to circumstances which did not exist at the end of the reporting period. Therefore, the retrospective adjustment for a rights issue would only be made for rights issues that occurred during the reporting period. Any that occurred after the end of the reporting period but before the financial statements are authorised for issue should be disclosed as a non-adjusting event in accordance with HKAS 33.70(d) and HKAS 10.22(f).

HKAS 33.70(a)

(i) Profit attributable to ordinary equity shareholders of the company (diluted)

	2017 $'000	2016 $'000
Profit attributable to ordinary equity shareholders	***114,367***	*96,181*
After tax effect of effective interest on the liability component of convertible notes	***525***	*522*
After tax effect of losses recognised on the derivative component of convertible notes	***1***	*1*
Profit attributable to ordinary equity shareholders (diluted)	***114,893***	*96,704*

HKAS 33.70(b)

(ii) Weighted average number of ordinary shares (diluted)

	2017 '000	2016 '000
Weighted average number of ordinary shares at 31 December	***99,531***	*99,000*
Effect of conversion of convertible notes (note 25)	***500***	*500*
Effect of deemed issue of shares under the company's share option scheme for nil consideration (note 29)	***439***	*164*
Weighted average number of ordinary shares (diluted) at 31 December	***100,470***	*99,664*

11 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENET AND LEASEHOLD LAND[123]

(a) Reconciliation of carrying amount

		Land and buildings held for own use carried at fair value $'000	Buildings held for own use carried at cost $'000	Plant, machinery and equipment $'000	Sub-total $'000	Investment property $'000	Interests in leasehold land held for own use under operating leases $'000	Total $'000
	Cost or valuation:							
HKAS 16.73(d)	At 1 January 2016	74,323	8,811	104,236	187,370	60,170	11,725	259,265
HKAS 16.73(e)(viii))	Exchange adjustments	236	-	870	1,106	-	-	1,106
HKAS 16.73(e)(i)	Additions	7,927	-	12,833	20,760	-	-	20,760
HKAS 16.73(e)(ii)	Disposals	-	-	(3,845)	(3,845)	-	-	(3,845)
HKAS 16.73(e)(iv)	Surplus on revaluation	7,158	-	-	7,158	-	-	7,158
	Less: elimination of accumulated depreciation	(1,937)	-	-	(1,937)	-	-	(1,937)
HKAS 40.76	Fair value adjustment	-	-	-	-	6,520	-	6,520
HKAS 16.73(d)	At 31 December 2016	87,707	8,811	114,094	210,612	66,690	11,725	289,027
	Representing:							
	Cost	-	8,811	114,094	122,905	-	11,725	134,630
	Valuation – 2016	87,707	-	-	87,707	66,690	-	154,397
		87,707	8,811	114,094	210,612	66,690	11,725	289,027
HKAS 16.73(d))	At 1 January 2017	87,707	8,811	114,094	210,612	66,690	11,725	289,027
HKAS 16.73(e)(viii))	Exchange adjustments	(1,171)	-	(1,230)	(2,401)	-	-	(2,401)
HKAS 16.73(e)(i)	Additions	10,373	-	14,388	24,761	-	-	24,761
HKAS 16.73(e)(ii)	Disposals	-	-	(4,570)	(4,570)	-	-	(4,570)
HKAS 16.73(e)(iv)	Surplus on revaluation	27,290	-	-	27,290	-	-	27,290
	Less: elimination of accumulated depreciation	(2,649)	-	-	(2,649)	-	-	(2,649)
HKAS 40.76	Fair value adjustment	-	-	-	-	18,260	-	18,260
HKAS 16.73(d)	**At 31 December 2017**	**121,550**	**8,811**	**122,682**	**253,043**	**84,950**	**11,725**	**349,718**
	Representing:							
	Cost	-	8,811	122,682	131,493	-	11,725	143,218
	Valuation – 2017	121,550	-	-	121,550	84,950	-	206,500
		121,550	8,811	122,682	253,043	84,950	11,725	349,718

HKAS 1.38

[123] Comparative information is required for the analysis of the movements, as neither HKAS 1 nor HKAS 16 give a specific exemption in this regard.

		Land and buildings held for own use carried at fair value $'000	Buildings held for own use carried at cost $'000	Plant, machinery and equipment $'000	Sub-total $'000	Investment property $'000	Interests in leasehold land held for own use under operating leases $'000	Total $'000
	Accumulated amortisation and depreciation:							
HKAS 16.73(d)	At 1 January 2016	-	267	71,123	71,390	-	1,005	72,395
HKAS 16.73(e)(viii)	Exchange adjustments	-	-	334	334	-	-	334
HKAS 16.73(e)(vii)	Charge for the year	1,937	267	9,961	12,165	-	335	12,500
HKAS 16.73(e)(ii)	Written back on disposals	-	-	(2,837)	(2,837)	-	-	(2,837)
HKAS 16.73(e)(iv)	Elimination on revaluation	(1,937)	-	-	(1,937)	-	-	(1,937)
HKAS 16.73(d)	At 31 December 2016	-	534	78,581	79,115	-	1,340	80,455
HKAS 16.73(d)	At 1 January 2017	-	534	78,581	79,115	-	1,340	80,455
HKAS 16.73(e)(viii)	Exchange adjustments	-	-	(526)	(526)	-	-	(526)
HKAS 16.73(e)(vii)	Charge for the year	2,649	267	10,796	13,712	-	335	14,047
HKAS 16.73(e)(v)	Impairment loss	-	-	1,200	1,200	-	-	1,200
HKAS 16.73(e)(ii)	Written back on disposals	-	-	(3,738)	(3,738)	-	-	(3,738)
HKAS 16.73(e)(iv)	Elimination on revaluation	(2,649)	-	-	(2,649)	-	-	(2,649)
HKAS 16.73(d)	**At 31 December 2017**	**-**	**801**	**86,313**	**87,114**	**-**	**1,675**	**88,789**
HKAS 16.73(e)	**Net book value:**							
	At 31 December 2017	**121,550**	**8,010**	**36,369**	**165,929**	**84,950**	**10,050**	**260,929**
	At 31 December 2016	87,707	8,277	35,513	131,497	66,690	10,385	208,572

Impairment loss

HKAS 36.126(a) & 130

In June 2017, a number of machines in the property development division[124] were physically damaged. The group assessed the recoverable amounts of those machines and as a result the carrying amount of the machines was written down to their recoverable amount of $6,230,000[125]. An impairment loss of $1,200,000 was recognised in "Other operating expenses". The estimates of recoverable amount were based on the machines' fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets within the same industry, adjusted for differences such as remaining useful lives[126]. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement. The equipment was disposed of before the end of the year at approximately its carrying amount at that time.[127]

HKAS 36.130 (c)(ii)

[124] If an entity reports segment information in accordance with HKFRS 8, it should disclose for an individual asset the reportable segment to which the asset belongs.

HKAS 36.130(e)

[125] For an individual asset (including goodwill) or a cash-generating unit for which an impairment loss has been recognised or reversed during the period, the entity is required to disclose the recoverable amount of the asset or CGU and whether the recoverable amount of the asset or CGU is its fair value less costs of disposal or its value in use. If the recoverable amount is fair value less costs of disposal, additional disclosures will be required. See footnote 126 below for details of those additional disclosures.

HKFRS 13.7(c)
HKAS 36.130(f)

[126] As stated in HKFRS 13.7(c), an asset whose recoverable amount is fair value less costs of disposal in accordance with HKAS 36 is outside the scope of HKFRS 13's disclosure requirements. Instead, entities need to provide the following disclosures required by paragraph 130 of HKAS 36 if an impairment loss has been recognised or reversed during the period in respect of the asset whose recoverable amount is fair value less costs of disposal:

- the level of the 3-Level fair value hierarchy (as defined in HKFRS 13) within which the fair value measurement is categorised;
- for Level 2 and Level 3 fair value measurements:
  - a description of the valuation technique(s) used to measure fair value less costs of disposal;
  - any change in valuation technique used and the reason(s) for making the change;
  - key assumptions used in determining the fair value less costs of disposal; and
  - discount rate used in the measurement if a present value technique is used for measuring fair value less costs of disposal.

HKAS 34.26

[127] If an estimate of an amount reported in an interim period is changed significantly during the final interim period of the financial year, paragraph 26 of HKAS 34 requires the nature and amount of the change in estimate to be disclosed in a note to the annual financial statements unless a separate interim financial report is published for that final period. In Hong Kong, as typically an interim financial report is only published in respect of the first six months of the period, this disclosure requirement in HKAS 34.26 would apply to the annual financial statements whenever there is a significant change in the second half of the year to an estimate reported in the first half of the year.

HKFRS 13.91-93

(b) Fair value measurement of properties[128]

HKFRS 13.93(b)

(i) Fair value hierarchy[130]

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2017 categorised into		
	Fair value at 31 December 2017[131]	Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Recurring fair value measurement [129]				
Investment properties:				
- Residential – Mainland China	32,000	-	-	32,000
- Commercial – HK	52,950	-	52,950	-
Properties held for own use:				
- Freehold land and buildings – South East Asia	34,000	-	-	34,000
- Leasehold land and buildings – HK	87,550	-	87,550	-

		Fair value measurements as at 31 December 2016 categorised into		
	Fair value at 31 December 2016	Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Recurring fair value measurement				
Investment properties:				
- Residential – Mainland China	26,500	-	-	26,500
- Commercial – HK	40,190	-	40,190	-
Properties held for own use:				
- Freehold land and buildings – South East Asia	30,059	-	-	30,059
- Leasehold land and buildings – HK	57,648	-	57,648	-

HKFRS 13.93(c), (e)(iv)

During the year ended 31 December 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2016: nil). The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.[132]

HKAS 16.77
HKAS 40.75(a), (e)
HKFRS 13.93(g)

All of the group's investment properties and properties held for own use were revalued as at 31 December 2017[133]. The valuations were carried out by an independent firm of surveyors, Lang and Associates, who have among their staff Fellows of the Hong Kong Institute of Surveyors with

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HKFRS 13.91
92, 99,C1-C3

128 HKFRS 13 contains a comprehensive disclosure framework for fair value measurement. The objective of the disclosures for assets and liabilities that are measured at fair value after initial recognition is:

- to provide information that enables users of financial statements to assess the methods and inputs used to develop those measurements; and
- to assess the effect of the measurements on profit or loss or other comprehensive income of recurring fair value measurements that are based on significant unobservable inputs.

HKFRS 13.93-99 lists out the disclosures required by the standard. The disclosure requirements apply only to fair value measurements made after initial recognition and vary depending on whether the fair value measurement is "recurring" or "non-recurring", and depending on which level of the 3-Level fair value hierarchy (as further discussed in footnote 130 below) that the assets or liabilities are categorised within. As explained in footnote 129 below, recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. All other measurements using fair value after initial recognition are "non-recurring". The most extensive disclosure requirements are for Level 3 measurements that are recurring.

HKFRS 13.92 explicitly requires that if the disclosures provided in accordance with the standard and other HKFRSs are insufficient to meet the above-mentioned disclosure objectives, entities should disclose additional information necessary to meet those objectives.

Unless another format is more appropriate, the quantitative disclosures required by HKFRS 13 should be presented in a tabular format (i.e. instead of being a narrative note).

In these illustrative financial statements, HK Listco provides HKFRS 13 disclosures for its investment properties and properties held for own use in note 11(b), and financial instruments in note 33(f).

HKFRS 13.93(a)

129 Recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. Examples of recurring fair value measurements include investment properties accounted for using fair value model under HKAS 40, properties held for own use measured at revaluation model under HKAS 16, financial assets at fair value through profit or loss and available-for-sale financial assets which are required to be measured at fair value under HKAS 39.

Non-recurring fair value measurements made after initial recognition are those that are triggered by particular circumstances. Non-recurring fair value measurements include an asset being classified as held for sale and measured at fair value less costs to sell under HKFRS 5, and an impairment of a financial asset carried at amortised cost being measured on the basis of an instrument's fair value as a practical expedient under HKAS 39.AG84.

HKFRS
13.93(b), 72-90

130 For recurring and non-recurring fair value measurements, entities are required to disclose the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique for that particular asset or liability as follows:

- Level 1 valuations: these are valuations which use only Level 1 inputs i.e. these use unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: these are valuations that use Level 2 inputs i.e. observable inputs which fail to meet Level 1 (e.g. because the observable inputs are for similar, but not identical assets or liabilities) and do not use significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: these are valuations which cannot be classified as Level 1 or Level 2. This means that the valuation is estimated using significant unobservable inputs.

In some cases, the inputs used to measure the fair value might be categorised within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement (NB Level 1 is considered as the highest, Level 3 is the lowest). This means that if the valuation technique uses significant unobservable inputs, then the fair value of that asset or liability should be classified as a "Level 3" valuation.

HKFRS 13.94

131 For recurring and non-recurring fair value measurements, entities are required to disclose, for each class of assets and liabilities, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. As stated in paragraph 94 of HKFRS 13, class is determined based on the nature, characteristics and risks of the asset or liability; and the level of the fair value hierarchy within which the fair value measurement is categorised. When another HKFRS specifies the class for an asset or a liability, entities may use that class in providing the disclosures required by HKFRS 13, if that class meets the requirements in HKFRS 13.94. In these illustrative financial statements, so far as the fair value disclosures for properties are concerned, HK Listco has taken into account the location and the type of property when identifying separate classes for the purpose of HKFRS 13.

As stated in HKFRS 13.94, the number of classes may need to be greater for Level 3 fair value measurements as they have a greater degree of uncertainty and subjectivity.

recent experience in the location and category of property being valued[134]. The group's property manager and the chief financial officer have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date[135].

HKFRS 13.93(d)

(ii) Valuation techniques and inputs used in Level 2 fair value measurements[136]

The fair value of investment properties and properties held for own use located in Hong Kong is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available.

HKFRS 13.93(d)

(iii) Information about Level 3 fair value measurements[136]

	Valuation techniques	Unobservable input	Range[137]	Weighted average[137]
Investment properties Residential – Mainland China	Discounted cash flow	Risk-adjusted discount rate	[●]% to [●]% (2016: [●]% to [●]%)	[●]% (2016: [●]%)
		Expected market rental growth	[●]% to [●]% (2016: [●]% to [●]%)	[●]% (2016: [●]%)
		Expected occupancy rate	[●]% to [●]% (2016: [●]% to [●]%)	[●]% (2016: [●]%)
Properties held for own use Freehold land and buildings – South East Asia	Market comparison approach	Premium (discount) on quality of the buildings	-[●]% to [●]% (2016: -[●]% to [●]%)	[●]% (2016: [●]%)

The fair value of investment properties located in the Mainland China is determined by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates[138].

HKFRS 13.93(h)(i)

The fair value of properties held for own use located in South East Asia is determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's buildings compared to the recent sales. Higher premium for higher quality buildings will result in a higher fair value measurement.

HKFRS 13.93(c), 93(e)(iv) & 95

132 Entities are required to disclose, for recurring fair value measurements:

- the amounts of any transfers between levels of the fair value hierarchy;
- the reasons for those transfers; and
- the policy for determining when transfers between levels are deemed to have occurred (e.g. occurred at the date of the event or change in circumstances that caused the transfer, deemed to have occurred at the beginning of the reporting period, or at the end of the reporting period).

Transfers into and out of the levels should be separately disclosed and discussed.

HKFRS 13.27-29, 93(i)

133 Under HKFRS 13, fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. An entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset. If it is determined that the highest and best use of a non-financial asset differs from its current use, the entity is required to disclose this fact and why the non-financial asset is being used in a manner that differs from its highest and best use. This disclosure requirement applies to both recurring and non-recurring fair value measurements.

HKFRS 13.93(e), (f)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:[139]

	2017	2016
	$'000	$'000
Investment properties – Residential – Mainland China:		
At 1 January	**26,500**	24,310
Fair value adjustment	**5,500**	2,190
At 31 December	**32,000**	26,500
Properties held for own use – Freehold land and buildings – South East Asia		
At 1 January	**30,059**	28,013
Additions	**505**	1,080
Exchange adjustment	**(1,171)**	236
Depreciation charge for the year	**(1,020)**	(745)
Surplus on revaluation	**5,627**	1,475
At 31 December	**34,000**	30,059

Fair value adjustment of investment properties is recognised in the line item "net valuation gain on investment property" on the face of the consolidated statement of profit or loss.

Surplus on revaluation and exchange adjustment of properties held for own use are recognised in other comprehensive income in "property revaluation reserve" and "exchange reserve", respectively.

All the gains recognised in profit or loss for the year arise from the properties held at the end of the reporting period.

(iv) Depreciated cost of properties held for own use carried at fair value

HKAS 16.77(e)

Had the revalued properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been:

	2017	2016
	$'000	$'000
Freehold land and buildings	**22,150**	24,260
Leasehold land and buildings	**58,390**	47,907
	80,540	72,167

HKAS 16.77
HKAS 40.75(e)

[134] Entities should disclose the extent to which the fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, entities disclose this fact. Similarly, entities should disclose whether an independent valuer was involved in the revaluation of property, plant and equipment.

HKFRS 13.93(g), IE65

[135] For fair value measurements categorised in Level 3 of the fair value hierarchy, entities should provide a description of the valuation processes used. IE65 of HKFRS 13 gives examples of information that the entity might disclose in respect of the valuation processes in order to comply with this requirement.

HKFRS 13.93(d)

[136] Entities are required to disclose, for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. For fair value measurements categorised within Level 3, information about the significant unobservable inputs used has to be quantitative.

If there has been a change in valuation technique, entities should disclose this fact and the reason(s) for making the change.

[137] HKFRS 13 does not specify how to summarise the quantitative information about the significant unobservable inputs used for each class of assets or liabilities carried at Level 3 valuations (e.g. whether to disclose the range of values or a weighted average for each significant unobservable input used). Entities should consider the level of detail that is necessary to meet the disclosure objectives. For example, if the range of values for a significant unobservable input used is wide, then the entity may need to disclose both the range and the weighted average of the values in order to provide information about how the inputs are dispersed around that average and distributed within that range.

HKFRS 13.93(h)(i)

[138] For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, entities should give a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. This narrative description should include, at a minimum, the unobservable inputs that have been disclosed under HKFRS 13.93(d).

If there are interrelationships between those inputs, a description of those interrelationships and how they might magnify or mitigate the effect of changes should be disclosed.

HKFRS 13.93(e), 93(f)

[139] For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, entities should provide a reconciliation from the opening balances to the closing balances. This reconciliation should separately disclose the changes during the period attributable to:

- total gains or losses (i.e. realised and unrealised) for the period recognised in profit or loss, and the line item(s) in profit or loss in which they are recognised;
- total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which they are recognised;
- purchases, sales, issues and settlements (each of these types of changes disclosed separately); and
- the amounts of any transfers into or out of Level 3 of the fair value hierarchy.

Separate disclosure should be made for changes in unrealised gains or losses included in profit or loss relating to assets and liabilities held at the end of the reporting period and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.

(c) The analysis of net book value of properties is as follows:

		2017	2016
		$'000	$'000
HKAS 17.31(e) & 35(d)	In Hong Kong[140]		
	- long leases	**128,560**	95,930
	- medium-term leases	**11,940**	8,908
HKAS 17.31(e) & 35(d)	Outside Hong Kong[140]		
	- freehold	**34,000**	30,059
	- medium-term leases	**50,060**	38,162
		224,560	173,059
	Representing:		
	Land and buildings carried at fair value	**206,500**	154,397
	Buildings carried at cost	**8,010**	8,277
		214,510	162,674
	Interest in leasehold land held for own use under operating leases	**10,050**	10,385
		224,560	173,059

(d) Assets held under finance leases

HKAS 17.31(e)

In addition to the leasehold land and buildings classified as being held under a finance lease in note (c) above, the group leases production plant and machinery under finance leases expiring from [•] to [•] years. One of the leases is an arrangement that is not in the legal form of a lease, but is accounted for as such based on its terms and conditions (see note 2(a)(ii)). Except for this arrangement, at the end of the lease term the group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

HKAS 7.43
HKAS 17.31(a)

During the year, additions to plant and machinery financed by new finance leases were HK$2,939,000 (2016: $nil)[141]. At the end of the reporting period, the net book value of plant and machinery held under finance leases was $10,354,000 (2016: $8,975,000).

(e) Assets leased out under operating leases

HKAS 17.56(c)

The group leases out investment property and a number of items of machinery under operating leases. The leases typically run for an initial period of [•] to [•] years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every [•] years to reflect market rentals. None of the leases includes contingent rentals.

HKAS 40.75(b)

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

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140 Under the predecessor Companies Ordinance (Cap. 32) entities were required to analyse leasehold interests into short, medium and long term interests, separately for leasehold interests in Hong Kong and outside Hong Kong. This disclosure requirement has been removed from the new CO. However, this analysis may be relevant information for the purposes of meeting the disclosure requirements of paragraphs 31(e) and 35(d) of HKAS 17, which require entities to provide a general description of a lessee's significant leasing arrangements.

HKAS 7.43

141 Where there have been non-cash investing and financing transactions these should be disclosed outside the cash flow statement (i.e. elsewhere in the financial statements) in a way that provides all relevant information about these activities.

HKAS 17.56(a)

Total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2017	2016
	$'000	$'000
Within 1 year	**9,780**	7,600
After 1 year but within 5 years	**30,320**	23,560
After 5 years	**10,250**	7,970
	50,350	39,130

12 INTANGIBLE ASSETS[142]

HKAS 38.118(c)&(e)

	Development costs $'000	Patents and trademarks $'000	Total $'000
Cost:			
At 1 January 2016	-	15,000	15,000
Addition through internal development	2,400	-	2,400
At 31 December 2016	2,400	15,000	17,400
At 1 January 2017	2,400	15,000	17,400
Addition through internal development	3,500	-	3,500
At 31 December 2017	**5,900**	**15,000**	**20,900**
Accumulated amortisation:			
At 1 January 2016	-	1,500	1,500
Charge for the year	-	1,500	1,500
At 31 December 2016	-	3,000	3,000
At 1 January 2017	-	3,000	3,000
Charge for the year	1,180	1,500	2,680
At 31 December 2017	**1,180**	**4,500**	**5,680**
Net book value:			
At 31 December 2017	**4,720**	**10,500**	**15,220**
At 31 December 2016	2,400	12,000	14,400

HKAS 38.118(d)

The amortisation charge for the year is included in "cost of sales" in the consolidated statement of profit or loss[71] on page 41.

HKAS 1.38

[142] Comparative information is required for the analysis of movements in intangible assets, as HKAS 38 does not give a specific exemption in this regard.

13 GOODWILL[143]

		$'000
	Cost:	
HKFRS 3.B67(d)(i)	**At 1 January 2016, 31 December 2016 and 31 December 2017**	**1,100**
	Accumulated impairment losses:	
HKFRS 3.B67(d)(i)	At 1 January 2016, 31 December 2016 and 1 January 2017	-
HKFRS 3.B67(d)(v)	Impairment loss	184
HKFRS 3.B67(d)(viii)	**At 31 December 2017**	**184**
	Carrying amount:	
	At 31 December 2017	**916**
	At 31 December 2016	1,100

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the group's cash-generating units (CGU) identified according to country of operation and operating segment as follows:

HKAS 36.134(a)

	2017 $'000	2016 $'000
Electronics - Hong Kong	**866**	1,050
Multiple units without significant goodwill[144]	**50**	50
	916	1,100

HKAS 1.38

143 Comparative information is required for the analysis of the movements in goodwill, as HKFRS 3 does not give a specific exemption in this regard.

HKAS 36.135

144 If some or all of the carrying amount of goodwill or intangible assets with indefinite useful lives is allocated across multiple CGUs (groups of units), and the amount so allocated to each unit (group of units) is not significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, that fact shall be disclosed, together with the aggregate carrying amount of goodwill or intangible assets with indefinite useful lives allocated to those units (groups of units).

In addition, if this aggregate amount is itself significant in comparison with the total goodwill or intangible assets with indefinite useful lives then further disclosure may be required, in respect of that aggregate amount. These requirements are set out in paragraph 135 of HKAS 36 and apply where:

- some or all of the individually insignificant amount of goodwill or intangible assets with indefinite useful lives within that aggregate share the same key assumptions; and
- the aggregate of that subset is significant compared to the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.

Electronics - Hong Kong

HKAS 36.134(c) & (d)

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of [●]% (2016: [●]%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of [●]% (2016: [●]%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments[145].

HKAS 36.130(a) & (e) & 134(f)

The impairment loss recognised during the year solely relates to the group's electronics manufacturing activities based in Hong Kong. As the cash generating unit has been reduced to its recoverable amount of $1,716,501,000[125 on page 85], any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.[146]

HKAS 36.134

145 HKAS 36.134 sets out disclosure requirements which are applicable to each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. The specific disclosures depend on whether the recoverable amount of the CGU is based on value in use or fair value less costs of disposal:

- If the recoverable amount is based on value in use (as is the case for HK Listco), entities need to provide the disclosures regarding cash flow projections used to calculate value in use under HKAS 36.134(d).
- If the recoverable amount is based on fair value less costs of disposal, then entities need to disclose information about the valuation technique used to measure fair value less costs of disposal under HKAS 36.134(e). If fair value less costs of disposal is not measured using a quoted price for an identical unit, as would generally be the case, entities need to provide the extra information required by HKAS 36.134(e)(i)-(iiB).

HKAS 36.134(f)

146 For each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, disclosure of the following information is required 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 amount by which the unit's (group of units') recoverable amount exceeds its carrying amount;
- the value assigned to the key assumption; and
- 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.

HKFRS 12.1&3&C2B [147] HKFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in other entities; and
- the effects of those interests on its financial position, financial performance and cash flows.

The standard contains extensive disclosure requirements in respect of an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. HKFRS 12.3 requires that, if the disclosures required by this standard, together with disclosures required by other HKFRSs, do not meet the above disclosure objective, the entity should disclose additional information necessary to meet the objective.

HKFRS 12.5A, B17 As part of the *Annual Improvements to HKFRSs 2014-2016 Cycle,* HKFRS 12 has been amended to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with HKFRS 5. These amendments to HKFRS 12 are effective for annual periods beginning on or after 1 January 2017.

A16(9)(2) [148] Paragraph 9(2) of Appendix 16 to the MBLRs requires listed issuers to disclose particulars of the issued share capital and debt securities of every subsidiary.

A16(9)(1) [149] Paragraph 9(1) of Appendix 16 to the Main Board Listing Rules requires the disclosure of the subsidiary's principal country of operation and country of incorporation or other establishment. Where the subsidiary is established in the PRC, disclosure of the type of legal entity it is registered as under PRC law (such as a contractual or cooperative joint venture) is also required.

CP [150] Although not required, the proportion of voting power held is also commonly shown if different from the proportion of ownership interest.

14 INVESTMENTS IN SUBSIDIARIES[147]

HKFRS 12.10
HKAS 24.13
A16(9)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.[148]

Name of company	Place of incorporation and business[149]	Particulars of issued and paid up capital and debt securities[148]	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the company	Held by a subsidiary[150]	
ABC Electronics Limited	Hong Kong	10,000,000 shares	100%	100%	-	Manufacture of electronic products
BB Trading Limited	Hong Kong	1,000,000 shares	67.5%	-	67.5%	Wholesaling and retailing of electronic products
Bright Light Limited	Hong Kong	2,000,000 shares	100%	100%	-	Construction and trading
Bright Property Limited	Hong Kong	5,000,000 shares and HK$ 5 million debentures 8% 2023 (Note 25)	100%	100%	-	Property investment
Brilliant Property Limited	Hong Kong	1,000,000 shares	100%	100%	-	Property development
Future Trading Limited	Hong Kong	2,000,000 shares	100%	100%	-	Investment holding
Smart Electronics Limited	Singapore	2,000,000 shares of S$ 1 each	100%	100%	-	Manufacture of electronic products
*P.J. Enterprise Limited	USA	500,000 shares of US$ 1 each	100%	100%	-	Marketing of electronic products
*Solid Trading Inc	USA	500,000 shares of US$ 1 each	90%	-	90%	Wholesaling and retailing of electronic products
Wilson Industries Sdn Bhd	Malaysia	2,000 shares of MYR 1 each	70%	70%	-	Manufacture of electronic products

PNote 600.1(22)&(24)

* Companies not audited by KPMG. The financial statements of the subsidiaries not audited by KPMG reflect total net assets and total revenue constituting approximately [●]% and [●]% respectively of the related consolidated totals.

HKFRS 12.12
HKFRS 12.B10, B11

The following table lists out the information relating to BB Trading Limited, the only subsidiary of the group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination[151].

	2017 **$'000**	2016 $'000
NCI percentage	**32.5%**	32.5%
Current assets	**192,688**	167,121
Non-current assets	**88,039**	76,462
Current liabilities	**(30,680)**	(25,384)
Non-current liabilities	**(9,574)**	(8,173)
Net assets	**240,473**	210,026
Carrying amount of NCI	**78,154**	68,258
Revenue	**370,575**	360,338
Profit for the year	**30,446**	29,720
Total comprehensive income	**30,446**	29,720
Profit allocated to NCI	**9,895**	9,659
Dividend paid to NCI	**-**	-
Cash flows from operating activities	**26,110**	21,959
Cash flows from investing activities	**(4,937)**	(3,341)
Cash flows from financing activities	**(2,963)**	(3,614)

HKFRS 12.12, B10-B11

[151] In order to help users to understand the interest that non-controlling interests have in the group's activities and cash flows, HKFRS 12 requires an entity to disclose the following information for each of its subsidiaries that has non-controlling interests material to the reporting entity:

a. the name of the subsidiary;
b. the principal place of business (and country of incorporation if different from the principal place of business) of the subsidiary;
c. the proportion of ownership interests held by non-controlling interests;
d. the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held;
e. the profit or loss allocated to non-controlling interests of the subsidiary during the reporting period;
f. accumulated non-controlling interests of the subsidiary at the end of the reporting period; and
g. summarised financial information about the subsidiary, including:
   - dividends paid to non-controlling interests;
   - summarised financial information about the assets, liabilities, profit or loss and cash flows of the subsidiary that enables users to understand the interest that non-controlling interests have in the group's activities and cash flows. That information might include but is not limited to:
     - current assets
     - non-current assets
     - current liabilities
     - non-current liabilities
     - revenue
     - profit or loss
     - total comprehensive income

The amounts disclosed should be before inter-company eliminations.

15 INTEREST IN ASSOCIATES[147, 152]

HKFRS 12.21

The following list contains only the particulars of material associates[152], all of which are unlisted corporate entities whose quoted market price is not available:[153]

				Proportion of ownership interest			
Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
Prospect Construction Sdn Bhd	Incorporated	Malaysia	1,000 ordinary shares of MYR 1 each	36%	-	40%	Construction (Note 1)
MT Trading Limited	Incorporated	Hong Kong	, 100,000 ordinary shares	25%	25%	-	Trading of electronic products (Note 2)

HKFRS 12.21(a)(ii)

Note 1: The investment in Prospect Construction Sdn Bhd, a major property constructor in the Malaysia market, enables the group to have exposure to this market through local expertise.

Note 2: MT Trading Limited operates in Hong Kong and is a strategic partner for the group in developing the education sector where MT Trading has an established customer base.

HKFRS 12.21(b)(i)

All of the above associates are accounted for using the equity method in the consolidated financial statements.

HKFRS 12.21(b)(ii)
HKFRS 12.B12, B14

Summarised financial information of the material associates, adjusted for any differences in accounting policies[154], and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below: [155]

HKFRS 12.21(a)

152 Under paragraph 21 of HKFRS 12, an entity needs to disclose the following information for each of its material joint arrangement and associate:
- the name of the joint arrangement or associate;
- the nature of the entity's relationship with the joint arrangement or associate (by, for example, describing the nature of the activities of the joint arrangement or associate and whether they are strategic to the entity's activities);
- the principal place of business (and country of incorporation, if applicable and different from the principal place of business) of the joint arrangement or associate; and
- the proportion of ownership interest or participating share held by the entity and, if different, the proportion of voting rights held (if applicable).

HKFRS 12.21(b)(iii)

153 For each material joint venture and associate accounted for using the equity method, an entity should disclose the fair value of the investment in the joint venture or associate, if there is a quoted market price for the investment.

HKFRS 12.21(b)(ii) & B12 & B14

154 For each material joint venture and associate, an entity should disclose the following information about the joint venture or associate:
- dividends received from the joint venture or associate; and
- summarised financial information of the joint venture or associate including, but not necessarily limited to:
  - current assets
  - non-current assets
  - current liabilities
  - non-current liabilities
  - revenue
  - profit or loss from continuing operations
  - post-tax profit or loss from discontinued operations
  - other comprehensive income
  - total comprehensive income

The summarised financial information presented should be 100% of the amounts included in the HKFRS (IFRS) financial statements of the joint venture or associate, and not the entity's share of those amounts.

HKFRS 12.B14(b)

155 For each material joint venture and associate, a reconciliation of the summarised financial information presented to the carrying amount of the entity's interest in the joint venture or associate is required.

	Prospect Construction Sdn Bhd		MT Trading Limited	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Gross amounts of the associates'				
Current assets	**14,687**	10,082	**56,875**	55,222
Non-current assets	**40,104**	32,766	**81,966**	60,741
Current liabilities	**(13,561)**	(10,981)	**(20,875)**	(28,263)
Non-current liabilities	**(4,340)**	(5,262)	**(19,366)**	(16,792)
Equity	**36,890**	26,605	**98,600**	70,908
Revenue	**102,659**	102,111	**138,276**	166,868
Profit from continuing operations	**17,700**	17,425	**28,200**	24,050
Post-tax profit or loss from discontinued	**-**	-	**-**	-
Other comprehensive income	**-**	-	**-**	-
Total comprehensive income	**17,700**	17,425	**28,200**	24,050
Dividend received from the associate	**-**	-	**3,000**	-
Reconciled to the group's interests in the associates				
Gross amounts of net assets of the associate	**36,890**	26,605	**98,600**	70,908
Group's effective interest	**36%**	36%	**25%**	25%
Group's share of net assets of the associate	**13,280**	9,578	**24,650**	17,727
Goodwill	**900**	900	**-**	-
Carrying amount in the consolidated financial statements	**14,180**	10,478	**24,650**	17,727

HKFRS 12.21(c)

Aggregate information of associates that are not individually material:[156]

		2017	2016
		$'000	$'000
HKFRS 12.B16	Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**1,478**	1,273
	Aggregate amounts of the group's share of those associates'		
	Profit from continuing operations	**408**	360
	Post-tax profit or loss from discontinued operations	**-**	-
	Other comprehensive income	**-**	-
	Total comprehensive income	**408**	360

16 INTEREST IN JOINT VENTURE[147, 152]

HKFRS 12.21

Details of the group's interest in the joint venture[152], which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
Sun Co Ltd	Incorporated	People's Republic of China	Registered capital RMB 3,000,000	50%	50%	-	Construction (Note 1)

HKFRS 12.21(a)(ii)

Note 1: Sun Co Ltd was established by the company with a major property constructor in the Mainland China, the other investor to this joint venture, to carry out the group's construction activity in Mainland China. Sun Co Ltd is mainly engaged in the construction of residential buildings.

HKFRS 12.21(c) & B16

[156] An entity should disclose, in aggregate, the carrying amount of its interests in all individually immaterial joint ventures or associates that are accounted for using the equity method. An entity should also disclose separately the aggregate amount of its share of those joint ventures' or associates':

- profit or loss from continuing operations;
- post-tax profit or loss from discontinued operations;
- other comprehensive income; and
- total comprehensive income.

The above disclosures should be provided separately for (i) immaterial joint ventures and (ii) immaterial associates.

HKFRS 12.21(b)(iii) Sun Co Ltd, the only joint venture in which the group participates, is an unlisted corporate entity whose quoted market price is not available.[153]

HKFRS 12.21(b)(ii) Summarised financial information of Sun Co Ltd, adjusted for any differences in accounting policies[154], and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below[155]:

		2017 $'000	2016 $'000
	Gross amounts of Sun Co Ltd's		
HKFRS 12.B12	Current assets	**25,136**	14,826
	Non-current assets	**110,750**	96,500
	Current liabilities	**(37,820)**	(37,350)
	Non-current liabilities	**(13,136)**	(10,386)
	Equity	**84,930**	63,590
HKFRS 12.B13	Included in the above assets and liabilities:[157]		
	Cash and cash equivalents	**12,856**	11,950
	Current financial liabilities (excluding trade and other payables and provisions)	**(11,350)**	(11,750)
	Non-current financial liabilities (excluding trade and other payables and provisions)	**(12,250)**	(12,850)

		2017 $'000	2016 $'000
HKFRS 12.B12	Revenue	**747,858**	627,538
	Profit from continuing operations	**21,340**	20,450
	Post-tax profit or loss from discontinued operations	**-**	-
	Other comprehensive income	**-**	-
	Total comprehensive income	**21,340**	20,450
	Dividend received from Sun Co Ltd	**-**	-
HKFRS 12.B13	Included in the above profit:[157]		
	Depreciation and amortisation	**(14,556)**	(12,335)
	Interest income	**1,160**	1,110
	Interest expense	**(8,270)**	(8,160)
	Income tax expense	**(7,168)**	(6,890)
	Reconciled to the group's interest in Sun Co Ltd		
HKFRS 12.B14(b)	Gross amounts of Sun Co Ltd's net assets	**84,930**	63,590
	Group's effective interest	**50%**	50%
	Group's share of Sun Co Ltd's net assets	**42,465**	31,795
	Goodwill	**300**	300
	Carrying amount in the consolidated financial statements	**42,765**	32,095

HKFRS 12.21(c) & B16 — 157 In addition to the summarised financial information listed out in footnote 154 above, an entity should disclose for each material joint venture the amount of:

- cash and cash equivalents;
- current financial liabilities (excluding trade and other payables and provisions);
- non-current financial liabilities (excluding trade and other payables and provisions);
- depreciation and amortisation;
- interest income;
- interest expense; and
- income tax expense or income.

17 OTHER NON-CURRENT FINANCIAL ASSETS[158]

		2017 $'000	2016 $'000
	Held-to-maturity debt securities[159]		
HKFRS 7.8(b) & 31 HKAS 1.77	Listed in Hong Kong (note 33(f)(ii))	**16,466**	15,176
	Available-for-sale equity securities:[159]		
HKFRS 7.8(d) & 31 HKAS 1.77	- Unlisted (note 33(f)(i))	**5,040**	4,950
	- Listed in Hong Kong (note 33(f)(i))	**7,823**	6,710
		12,863	11,660
HKAS 1.77 HKAS 24.18(b) HKFRS 7.8(c)	**Loans to associates**	**31,601**	21,596
		60,930	48,432
HKFRS 7.37(b)	Fair value of individually impaired available-for-sale equity securities	**-**	840

HKFRS 7.36(c)

The listed debt securities are issued by corporate entities with credit ratings ranging from [●] to [●].[160]

HKFRS 7.37(b)

As at 31 December 2016 certain listed available-for-sale equity securities were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the group's investment in them may not be recovered. Impairment losses on these investments were recognised in profit or loss in accordance with the policy set out in note 1(n)(i) (see note 4).[161]

HKAS 24.18(b)
HKFRS 7.36(c)

The loans to associates are unsecured, interest free and have no fixed repayment terms. Neither the held-to-maturity debt securities nor the loans to associates are past due[165 on page 105] or impaired. Summary financial information on the associates is disclosed in note 15.

HKFRS 13.91, 97

[158] HK Listco's financial assets disclosed in notes 17 and 18 include available-for-sale equity securities and trading securities which are measured at fair value in the statement of financial position on a recurring basis after initial recognition. Therefore, HKFRS 13 disclosures are required for these financial assets. For other financial assets in note 17 that are not measured at fair value i.e. held-to-maturity debt securities and loans to associates, under HKFRS 13.97 they will be subject to certain HKFRS 13 disclosure requirements if their fair value is disclosed in the financial statements e.g. when the carrying amounts of the held-to-maturity securities and loan receivables are not a reasonable approximation of their fair value and therefore the fair value is disclosed as required by HKFRS 7.25.

HKFRS 13 does not require all the information provided under the standard to be disclosed in a single note. Therefore, entities may disclose the information in the respective notes of the individual asset or liability subject to HKFRS 13 disclosures or in a single note. In either case, quantitative data should generally be presented in a tabular format (i.e. instead of in a narrative format). In these illustrative financial statements, HK Listco provides HKFRS 13 disclosures for financial instruments in a single note in note 33(f), and for properties in note 11(b).

HKFRS 7.31

[159] Paragraph 31 of HKFRS 7 requires an entity to disclose information that enables users to evaluate the nature and extent of risks arising from financial instruments. For the purpose of satisfying this disclosure objective, it may be necessary to separately disclose the carrying amounts of listed and unlisted investments. This information may be further analysed if it is considered useful for such evaluation, for example, based on the listing jurisdiction.

HKFRS 7.36(c)

[160] Paragraph 36(c) of HKFRS 7 requires an entity to disclose, by class of financial asset, information about the credit quality of financial assets that are neither past due nor impaired. There are no further specifics given as to the information required to be disclosed in this regard and in any event it is important that the disclosures should be tailored to suit the entity's own circumstances, reflecting the information concerning exposure to credit risk that is provided to key management personnel of the entity, if any, (see footnote 208 on page 134) and the extent to which the financial assets in question are material. Further guidance on the information that an entity might disclose to satisfy paragraph 36(c) of HKFRS 7 is set out in paragraphs IG23-IG25 of HKFRS 7.

18 TRADING SECURITIES[158]

		2017	2016
		$'000	$'000
HKFRS 7.8(a)(ii)	Listed equity securities at fair value (note 33(f)(i))[159]		
	- in Hong Kong	**42,800**	44,355
	- outside Hong Kong	**15,531**	13,665
		58,331	58,020

HKFRS 7.37(b) [161] Paragraph 37(b) of HKFRS 7 requires an entity to disclose by class of financial asset an analysis of financial assets that are individually determined to be impaired as at the reporting date and the factors that the entity considered in determining that they are impaired. In meeting this requirement for any given category of financial asset, there are two issues to consider: firstly the identification of classes within the category (for example here, the classes within the available-for-sale category) and secondly the amount of information to be given concerning the factors that management considered before determining that the financial asset was impaired.

So far as disclosure with respect to the available-for-sale category is concerned, separate classes of available-for-sale financial assets could be identified based on the type of security (i.e. whether debt or equity) and/or other distinguishing characteristics (such as whether listed or unlisted, or the geographical location of the investees), consistent with the requirements of paragraph 6 of HKFRS 7 and the guidance in paragraphs B1-B2 of HKFRS 7.

Information concerning the factors that management considered should, as a minimum, be clearly consistent with one of more of the factors that are disclosed in the policy description required to be disclosed in accordance with the requirements of paragraph B5(f) of HKFRS 7, as illustrated in note 1(n)(i) to these illustrative financial statements. Users of the financial statements may also find it helpful if this disclosure is linked to the amount of impairment loss recognised on these impaired financial assets, as illustrated above.

19 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

HKAS 2.36(b)

	2017 $'000	2016 $'000
Electronic manufacturing		
Raw materials	**42,900**	45,133
Work in progress	**33,675**	30,251
Finished goods	**44,770**	32,166
Goods in transit	**9,658**	3,323
	131,003	110,873
Property development		
Land held for future development for sale	**12,025**	10,340
Property under development for sale	**73,568**	60,769
Completed property held for sale	**38,892**	41,700
	124,485	112,809
	255,488	223,682

HKAS 17.35(d)

(b) The analysis of carrying value of land[162] held for property development for sale is as follows:

	2017 $'000	2016 $'000
In Hong Kong		
- 50 years or more (long leases)	**67,046**	58,177
- between 10 and 50 years (medium-term leases)	**16,760**	16,760
	83,806	74,937

HKAS 2.36(d)

(c) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

		2017 $'000	2016 $'000
	Carrying amount of inventories sold	**774,748**	708,796
HKAS 2.36(e)	Write down of inventories	**12,794**	10,574
HKAS 2.36(f)	Reversal of write-down of inventories	**(1,500)**	-
		786,042	719,370

[162] HKAS 17, *Leases*, requires a lessee to disclose a general description of the lessee's significant operating lease arrangements. Where all land leases have been pre-paid, it would be informative to analyse the carrying value of significant prepaid leases by indicating the lease term. Any unpaid amounts of minimum lease payments under operating leases should be disclosed as commitments (see note 34 to these illustrative financial statements).

HKAS 2.36(g) The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain electronic goods as a result of a change in consumer preferences.

HKAS 1.61 The amount of properties for future development and under development expected to be recovered after more than one year is $12,025,000 and $57,853,000 respectively (2016: $10,340,000 and $50,793,000 respectively). All of the other inventories are expected to be recovered within one year[163].

20 TRADE AND OTHER RECEIVABLES

HKAS 1.77
HKAS 1.78(b)

		2017	2016
		$'000	$'000
	Trade debtors and bills receivable	**89,794**	66,805
	Less: allowance for doubtful debts (note 20(b))	**(3,840)**	(3,090)
		85,954	63,715
	Other debtors (notes 23 and 31)	**2,558**	2,298
HKFRS 7.8(c)	Loans and receivables	**88,512**	66,013
	Derivative financial instruments:		
HKFRS 7.22(b)	- held as cash flow hedging instruments (notes 33(c),(d) & (f)(i))	**2,467**	2,954
HKFRS 7.8(a)	- other derivatives (note 33(d)(ii) & (f)(i))	**253**	659
		2,720	3,613
	Deposits and prepayments	**714**	190
HKAS 11.42(a)	Gross amount due from customers for contract work (note 21)	**1,392**	8,263
		93,338	78,079

HKAS 1.61 The amount of derivative financial instruments, deposits and prepayments expected to be recovered or recognised as expense after more than one year is $1,423,000 (2016: $1,284,000). All of the other trade and other receivables, apart from those mentioned in notes 21 and 31 are expected to be recovered or recognised as expense within one year.[163]

HKAS 1.61 [163] HKAS 1 requires disclosure of the amount expected to be recovered or settled after more than one year, when any balance combines this with amounts expected to be recovered or settled within one year. For the avoidance of doubt, it is also useful to make a specific statement concerning all other balances (i.e. those expected to be fully recovered or settled within one year and those expected to be fully recovered or settled after one year). However, such disclosure is not required under HKAS 1.

(a) Ageing analysis

A16(4)(2)(a)

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows[164]:

	2017	2016
	$'000	$'000
Within 1 month	***47,993***	*32,621*
1 to 2 months	***30,352***	*25,697*
2 to 3 months	***3,712***	*2,847*
Over 3 months	***3,897***	*2,550*
	85,954	*63,715*

A16(4)(2)(a)
HKFRS 7.33(b)

Trade debtors and bills receivable are due[165] within [•] days from the date of billing. Further details on the group's credit policy are set out in note 33(a).

(b) Impairment of trade debtors and bills receivable [76 on page 49]

Impairment losses in respect of trade debtors and bills receivable are recorded using an allowance account unless the group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors and bills receivable directly (see note 1(n)(i)).

A16(4)(2)(a) &
A16(4)(2)(b)

[164] For Main Board listed issuers, the MBLRs require disclosure of the group's ageing analysis of accounts receivable and payable. In accordance with Note 4.2 to paragraph 4 to Appendix 16, the ageing analysis should normally be presented on the basis of the date of the relevant invoice or demand note and categorised into time-bands based on analysis used by an issuer's management to monitor the issuer's financial position. The basis on which the ageing analysis is presented should be disclosed.

As of the time of writing, there is no guidance or recommendation as to whether the ageing of accounts receivable should be before or after recognition of impairment losses. Listed entities are therefore recommended, as a matter of best practice, to clearly state which approach has been adopted in this respect.

HKFRS 7.6, 31,
34-38 & B1-B3

Both listed and unlisted entities should also note that HKFRS 7 requires summary quantitative data in respect of the entity's exposures to each type of risk arising from financial instruments at the reporting date. This summary quantitative data should be based on information provided internally to key management personnel of the entity. Although this appears to leave it up to management's judgement to decide how much information to disclose, HKFRS 7 requires the following specific ageing analyses to be disclosed as a minimum, whether or not such information is included in information provided internally to key management personnel:

- paragraph 37(a) of HKFRS 7 requires an analysis on a class by class basis of the age of financial assets that are past due at the end of the reporting period but not impaired (see note 20(c) to these illustrative financial statements); and

- paragraph 39(a) of HKFRS 7 requires disclosure of summary quantitative data about an entity's exposure to liquidity risk in the form of a maturity analysis for financial liabilities that shows the remaining contractual maturities (see note 33(b) to these illustrative financial statements).

Paragraph 36(c) of HKFRS 7 also requires disclosure of information about the credit quality of financial assets that are neither past due nor impaired (see note 20(c) to these illustrative financial statements).

[165] As defined in appendix A to HKFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. Paragraph IG26 of HKFRS 7 gives a specific example of this, being that a loan should be regarded as "past due" once an interest payment (for example a monthly interest payment) on that loan fails to be paid on time.

HKFRS 7.16

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows[166]:

		2017 $'000	2016 $'000
	At 1 January	**3,090**	3,020
HKFRS 7.20(e)	Impairment loss recognised	**2,300**	1,720
	Uncollectible amounts written off	**(1,550)**	(1,650)
	At 31 December	**3,840**	3,090

HKFRS 7.37(b)

At 31 December 2017, trade debtors and bills receivable of $2,320,000 (2016: $1,654,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of $1,670,000 (2016: $1,454,000) were recognised.

(c) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows[164]:

		2017 $'000	2016 $'000
	Neither past due nor impaired	**45,293**	30,560
HKFRS 7.37(a)	Less than 1 month past due	**28,459**	24,329
	1 to 3 months past due	**1,840**	1,183
		30,299	25,512
		75,592	56,072

HKFRS 7.36(c)

Receivables that were neither past due[165] nor impaired relate to a wide range of customers for whom there was no recent history of default.[160 on page 101]

HKFRS 7.34(a)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

HKFRS 7.16

[166] When an entity records the impairment of financial assets as a result of credit losses in a separate account (for example, an allowance account) rather than directly reducing the carrying amount of the asset (see also footnote 76 on page 49 to these illustrative financial statements), paragraph 16 of HKFRS 7 requires the disclosure of a reconciliation of changes in the allowance account during the accounting period for each class of financial asset. The standard does not specify the components of the reconciliation and entities should determine the most appropriate format in view of their individual circumstances and apply that format consistently from period to period.

21 CONSTRUCTION CONTRACTS

HKAS 11.40(a)

The aggregate amount of costs incurred plus recognised profits less recognised losses to date, included in the gross amount due from/to customers for contract work at 31 December 2017, is $23,392,000 (2016: $20,348,000).

HKAS 1.61

The gross amount due from customers for contract work at 31 December 2017 that is expected to be recovered after more than one year is $278,000 (2016: $1,032,000). The gross amount due to customers for contract work at 31 December 2017 that is expected to be settled after more than one year is $400,000 (2016: $nil).

HKAS 11.40(c)
HKAS 1.61

In respect of construction contracts in progress at the end of the reporting period, the amount of retentions receivable from customers, recorded within "Trade debtors and bills receivable" at 31 December 2017 is $974,000 (2016: $683,000). The amount of those retentions expected to be recovered after more than one year is $730,000 (2016: $512,000).

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

HKAS 7.45

	2017	2016
	$'000	$'000
Deposits with banks and other financial institutions	**42,248**	53,060
Cash at bank and on hand	**34,332**	52,029
Cash and cash equivalents in the consolidated statement of financial position	**76,580**	105,089
Bank overdrafts (note 26)	**(1,266)**	(2,789)
Cash and cash equivalents in the consolidated cash flow statement	**75,314**	102,300

(b) Reconciliation of profit before taxation to cash generated from operations[167]:

		Note	**2017 $'000**	2016 $'000
HKAS 7.18(b)	Profit before taxation		**149,258**	127,683
	Adjustments for:			
	Net valuation gain on investment property	11(a)	**(18,260)**	(6,520)
	Depreciation	5(c)	**13,712**	12,165
	Impairment loss on plant and machinery	5(c)	**1,200**	-
	Amortisation of land lease premium for property held for own use	5(c)	**335**	335
	Amortisation of intangible assets	5(c)	**2,680**	1,500
	Impairment of goodwill	5(c)	**184**	-
	Finance costs	5(a)	**16,536**	12,689
	Dividend income from investments	4	**(610)**	(572)
	Interest income	4	**(2,993)**	(3,998)
	Share of profits less losses of associates	15	**(13,830)**	(12,645)
	Share of profits of joint venture	16	**(10,670)**	(10,135)
	Loss on sale of property, plant and equipment	4	**83**	-
	Reclassification from equity on disposal of available-for-sale securities	4	**(1,305)**	-
	Reclassification from equity on impairment of available-for-sale securities	4	**-**	100
	Equity-settled share-based payment expenses	5(b)	**1,658**	1,625
HKAS 7.28	Foreign exchange loss/(gain)		**2,857**	(1,990)
	Changes in working capital:			
	Increase in inventories		**(28,026)**	(30,230)
HKAS 7.15	Increase in trading securities		**(311)**	(3,780)
	Increase in trade and other receivables		**(15,746)**	(22,636)
	Increase in trade and other payables		**25,957**	36,966
	Increase in provision for electronic product warranties		**2,300**	1,800
	Increase in net defined benefit retirement obligation		**665**	290
	Cash generated from operations		**125,674**	102,647

HKAS 7.18 [167] In these illustrative financial statements, HK Listco Ltd has elected to present cash flows from operating activities using the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, accruals and deferrals, and items of income or expense associated with investing or financing cash flows in order to arrive at "Cash generated from operations". An entity may alternatively present operating cash flows using the direct method, disclosing major classes of gross cash receipts and payments related to operating activities.

HKAS 7.44A – 44E

(c) Reconciliation of liabilities arising from financing activities[168,169]

The table below details changes in the group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the group's consolidated cash flow statement as cash flows from financing activities.

		Bank loans and other borrowings $'000 (Note)	Unsecured debentures $'000 (Note 25)	Convertible notes $'000 (Note 25)	Redeemable preference shares $'000 (Note 25)	Finance leases $'000 (Note 27)	Interest rate swaps held to hedge borrowings (assets)[170] $'000 (Note 33(f)(i))	Interest rate swaps held to hedge borrowings (liabilities) $'000 (Note 33(f)(i))	Conversion option embedded in convertible notes $'000 (Note 33(f)(i))	Total $'000
	At 1 January 2017	91,508	5,000	9,356	3,912	8,534	(1,489)	52	171	117,044
HKAS 7.44B(a)	**Changes from financing cash flows:**									
	Proceeds from new bank loans	6,100	-	-	-	-	-	-	-	6,100
	Repayment of bank loans	(10,480)	-	-	-	-	-	-	-	(10,480)
	Proceeds from new loans from associates	1,759	-	-	-	-	-	-	-	1,759
	Capital element of finance lease rentals paid	-	-	-	-	(1,833)	-	-	-	(1,833)
	Interest element of finance lease rentals paid	-	-	-	-	(505)	-	-	-	(505)
	Other borrowing costs paid	(18,768)	(400)	(550)	-	-	-	-	-	(19,718)
	Dividends paid on redeemable preference shares	-	-	-	(200)	-	-	-	-	(200)
	Total changes from financing cash flows	(21,389)	(400)	(550)	(200)	(2,338)	-	-	-	(24,877)
HKAS 7.44B(c)	**Exchange adjustments**	(392)	-	-	-	-	-	-	-	(392)
HKAS 7.44B(d)	**Changes in fair value**	-	-	-	-	-	(174)	76	1	(97)
HKAS 7.44B(e)	**Other changes:**									
	New finance leases (note 11(d))	-	-	-	-	2,939	-	-	-	2,939
	Finance charges on obligations under finance leases (note 5(a))	-	-	-	-	505	-	-	-	505
	Interest expenses (note 5(a))	14,793	400	736	-	-	-	-	-	15,929
	Capitalised borrowing costs (note 5(a))	3,780	-	-	-	-	-	-	-	3,780
	Dividends on redeemable preference shares (note 5(a))	-	-	-	200	-	-	-	-	200
	Total other changes	18,573	400	736	200	3,444	-	-	-	23,353
	At 31 December 2017	**88,300**	**5,000**	**9,542**	**3,912**	**9,640**	**(1,663)**	**128**	**172**	**115,031**

Note: Bank loans and other borrowings consist of bank loans, loans from non-controlling shareholders and loans from associates as disclosed in notes 25 and 26.

HKAS 7.44A-E

168 The amendments to HKAS 7, *Statement of cash flows: Disclosure initiative* require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. In this illustration, HK Listco provides such reconciliation to satisfy the disclosure requirement.

HKAS 7.60

169 The amendments to HKAS 7 are effective for annual periods beginning on or after 1 January 2017. Comparative information is not required in the first year of adoption.

HKAS 7.44C

170 The new disclosure requirements introduced by the amendments to HKAS 7 also apply to changes in financial assets (e.g. assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

23 LOANS TO DIRECTORS AND ENTITIES CONNECTED WITH DIRECTORS[171]

Loans to directors[172] of the company and entities connected with directors disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

C(DIBD)R.15(3) **(a) Loan made by a third party under a guarantee given by the company**

Name of borrower	Mr PK Smith
Position	Director
Particulars of guarantee given	Guarantee given to a finance company in respect of a loan of $3,000,000
Maximum liability under the guarantee	
- at 1 January 2016	$800,000
- at 31 December 2016 and 1 January 2017	$500,000
- at 31 December 2017	$200,000
Amount paid or liability incurred under the guarantee	$Nil (2016: $Nil)

The guarantee is given without recourse to the director. The guarantee will expire on 31 December 2020 or when the director ceases to be employed by the company, if earlier. The benefit in kind which arises from providing this guarantee on behalf of the director is recognised over the term of the guarantee as part of directors' emoluments.

The directors do not consider it probable that a claim will be made against the company under the guarantee.

C(DIBD)R.15-18 [171] The disclosure requirements regarding directors' loans, quasi-loans and certain other dealings in favour of directors are set out in sections 15-18 of C(DIBD)R. The requirements under the new CO mainly restate the disclosure requirements of the predecessor Ordinance. However, the scope of the disclosure requirements has been changed as follows:

- the scope has been expanded to include connected entities of the directors if the reporting entity is a "specified company"*. The definition of "connected entity" can be found in sections 484, 486-488 of the CO and includes both individuals, such as family members and business partners, and business entities, such as investees.
- "Other officers" (i.e. managers and companies secretaries) have been deleted from the scope, i.e. financing transactions with other officers are no longer required to be disclosed.

* For the purpose of providing disclosures under C(DIBD)R, companies are divided into two categories: "specified" companies and non-specified companies. "Specified" companies refer to the following three types of companies:

a) A Hong Kong incorporated public company
b) A Hong Kong incorporated subsidiary of a Hong Kong incorporated public company
c) A non-Hong Kong incorporated company but is listed on the Hong Kong Stock Exchange

Non-specified companies are those that are none of the above.

As HK Listco is a "specified company", connected entities of its directors also fall within the scope of the disclosures about financing transactions.

C(DIBD)R.13(2) [172] For the purpose of the disclosures on loans, quasi-loans, credit transactions and related guarantees provided, "directors" include shadow directors (i.e. a person whose directions or instructions which the directors, or a majority of the directors, of the company are accustomed to act).

C(DIBD)R.15(3)

(b) Loans made by the company

Name of borrower	YKN Enterprises Ltd	Mr A Brown
Relationship with the company	Controlled by Mr YK Ng, director of the company	Director of the ultimate holding company of the company
Terms of the loan		
- duration and repayment terms	Repayable on demand	Repayable on demand
- loan amount	$156,700	$400,000
- interest rate	[●]% above company's borrowing rate	[●]% above company's borrowing rate
HKFRS 7.36(b) - security	None	Property*
Balance of the loan		
- at 1 January 2016	Nil	Nil
- at 31 December 2016 and 1 January 2017	$156,700	$360,000
- at 31 December 2017	$ Nil	$320,000
Maximum balance outstanding		
- during 2017	$156,700	$360,000
- during 2016	$156,700	$400,000

There was no amount due but unpaid, nor any provision made against the principal amount of or interest on these loans at 31 December 2016 and 2017.

* The company does not have the right to sell or repledge the property held as collateral in the absence of default by the director of the ultimate holding company.[173] The group considers that the credit risk arising from the loan to the director of the ultimate holding company is significantly mitigated by the property held as collateral, with reference to the estimated market value of the property as at 31 December 2017.[174]

HKFRS 7.15 & 38 — 173 Note that when an entity recognises financial or non-financial assets during the period as a result of taking possession of collateral it accepted as security or calling on other credit enhancements (for example, guarantees), paragraph 38 of HKFRS 7 requires the entity to disclose the nature and carrying amounts of such assets held at the reporting date. If such assets are not readily convertible into cash, further disclosure needs to be provided regarding the entity's policies for disposing of these assets or for using them in its operations.

In addition, if the entity is permitted to sell or repledge the collateral it has accepted in the absence of default by the owner of the collateral, paragraph 15 of HKFRS 7 requires certain specific disclosure in the financial statements, including the fair value of the collateral accepted and the collateral sold or repledged as well as other material terms and conditions associated with the use of this collateral.

HKFRS 7.36(b) — 174 Paragraph 36(b) of HKFRS 7 requires a description of collateral held as a security and other credit enhancements, and their financial effect. An example of disclosure about financial effect given in paragraph 36(b) is a quantification of the extent to which credit risk is mitigated by the collateral and other credit enhancement.

24 TRADE AND OTHER PAYABLES

HKAS 1.77

		2017 $'000	2016 $'000
	Bills payable	**94,650**	73,859
	Creditors and accrued charges	**61,831**	61,148
	Dividends payable on redeemable preference shares	**100**	100
HKAS 24.18(b)	Amounts due to ultimate holding company	**4,500**	4,500
HKAS 24.18(b)	Amounts due to fellow subsidiaries	**4,700**	4,200
HKFRS 7.8(f)	Financial liabilities measured at amortised cost	**165,781**	143,807
	Derivative financial instruments:		
HKFRS 7.22(b)	- held as cash flow hedging instruments (notes 33(c), (d) & (f)(i))	**168**	72
HKFRS 7.8(e)	- other derivatives (note 33(f)(i))	**172**	171
		340	243
	Financial guarantees issued	**6**	8
HKAS 11.42(b)	Gross amount due to customers for contract work (note 21)	**2,000**	915
HKAS 11.40(b)	Advances received	**105**	124
	Forward sales deposits and instalments received	**8,177**	5,259
		176,409	150,356

HKAS 1.61 The amount of forward sales deposits and instalments received, derivative financial instruments and financial guarantees issued expected to be recognised as income after more than one year is $2,725,000 (2016: $1,859,000). All of the other trade and other payables (including amounts due to related parties), apart from those mentioned in note 21 are expected to be settled or recognised as income within one year or are repayable on demand.[163 on page 104]

A16(4)(2)(b) *As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:*[164 on page 105]

	2017 $'000	*2016 $'000*
Within 1 month	***101,102***	*87,435*
1 to 3 months	***52,114***	*45,962*
Over 3 months but within 6 months	***1,543***	*1,106*
	154,759	*134,503*

25 NON-CURRENT INTEREST-BEARING BORROWINGS

HKFRS 7.7

(a) The analysis of the carrying amount of non-current interest-bearing borrowings is as follows:

	2017	2016
	$'000	$'000
Bank loans (note 26)		
- secured	**7,680**	9,054
- unsecured	**43,003**	41,023
	50,683	50,077
Unsecured debentures 8% 2023 (note 25(b)(i))	**5,000**	5,000
Convertible notes (note 25(b)(ii))	**9,542**	9,356
Redeemable preference shares (note 25(b)(iii))	**3,912**	3,912
Loans from non-controlling shareholders (note 25(b)(iv))	**3,000**	3,000
HKAS 24.18(b) Loans from associates (note 25(b)(v))	**2,665**	906
	74,802	72,251

HKFRS 7.8(f)
HKAS 1.61

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.[163 on page 104]

HKFRS 7.7 & 31

(b) Significant terms and repayment schedule of non-bank borrowings[175]

(i) Debentures

The debentures bear interest at 8% per annum, are unsecured and repayable on 31 December 2023. The debentures would become repayable on demand if the debt to equity ratio of the issuing entity exceeded [●] to [●].[176]

(ii) Convertible notes

A16(10)(1)

On 31 December 2014, the company issued 2 tranches, Tranche A and B, of 5,000,000 convertible notes. Each tranche has a face value of HK$5,000,000 and a maturity date of 31 December 2019. The notes bear interest at [●]% per annum and are unsecured.

The rights of the noteholders to convert the notes into ordinary shares are as follows:

- Conversion rights are exercisable at any time up to maturity at the noteholders' option.

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175 Paragraph 31 of HKFRS 7 contains a general requirement to disclose information that enables users of an entity's financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. This requirement is then supplemented by requirements concerning qualitative information and quantitative information, as further explained in the footnotes to note 33 to these illustrative financial statements.

None of these requirements in HKFRS 7 specifically require the disclosure of significant terms and conditions of all financial instruments. Nevertheless such information may be pertinent to help the user of the financial statements understand the risks that arise from the financial instruments held by the entity. For example, the disclosures concerning covenants attaching to borrowings, which would make the borrowings repayable on demand in certain circumstances, may be pertinent to assessing the liquidity risk faced by an entity.

Judgement is therefore required to be exercised in determining when it is necessary to make such a disclosure in respect of any given financial instrument, or a class of financial instruments sharing similar risk characteristics, and, if so, how much detail to disclose and whether to disclose it together with the notes to the statement of financial position, or in a separate note dealing with the entity's financial instrument risk management policies and analyses (i.e. as illustrated here in note 33 to these illustrative financial statements).

176 If there have been any breaches of loan agreements during the period further disclosure may be required by paragraphs 18 and 19 of HKFRS 7.

- If a holder of Tranche A notes exercises its conversion rights, the company is required to deliver ordinary shares at a rate of one ordinary share for every 20 notes converted.
- If a holder of Tranche B notes exercises its conversion rights, the company has the right to choose whether to deliver ordinary shares at a rate of one ordinary share for every 20 notes converted, or whether to settle in cash at an amount equal to the fixed number of shares under the conversion option multiplied by the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the [●] days immediately preceding the date of conversion.

Notes of either tranche, in respect of which conversion rights have not been exercised, will be redeemed at face value on 31 December 2019.

(iii) Redeemable preference shares

A16(10)(3) On 1 January 2015, the group issued 4,000,000 redeemable preference shares, which are redeemable at face value of $4,000,000 on 31 December 2021. Dividends are set at 5% of the face value and are payable semi-annually in arrears. Preference shareholders' rights are described in note 32(c)(i).

(iv) Loans from non-controlling shareholders

The loan is from a non-controlling shareholder of a subsidiary. It bears interest at prime rate plus [●]% per annum, is unsecured and is repayable on 31 December 2020.

(v) Loans from associates

HKAS 24.18(b) The loans from the associates bear interest at prime rate plus [●]% per annum, are unsecured and repayable on 31 December 2022.

HKFRS 7.7 & 31

26 BANK LOANS AND OVERDRAFTS

A16(22)

At 31 December 2017, the bank loans and overdrafts were repayable as follows:

	2017 **$'000**	2016 $'000
Within 1 year or on demand	**33,218**	40,314
After 1 year but within 2 years	**5,260**	3,375
After 2 years but within 5 years	**40,423**	40,098
After 5 years	**5,000**	6,604
	50,683	50,077
	83,901	90,391

At 31 December 2017, the bank loans and overdrafts were secured as follows:

	2017 **$'000**	2016 $'000
Unsecured bank overdrafts (note 22)	**1,266**	2,789
Bank loans		
- secured	**21,175**	37,165
- unsecured	**61,460**	50,437
	83,901	90,391

HKAS 16.74(a)

At 31 December 2017, the banking facilities of the group were secured by mortgages over land and buildings with an aggregate carrying value of $89,255,000 (2016: $75,087,000) and first floating charges over other property, plant and equipment with an aggregate value of $13,910,000 (2016: $16,792,000). Such banking facilities amounted to $91,000,000 (2016: $75,000,000). The facilities were utilised to the extent of $33,284,000 (2016: $52,065,000).

All of the group's banking facilities are subject to the fulfilment of covenants relating to certain of the group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the group were to breach the covenants the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 33(b). As at 31 December 2017 none of the covenants relating to drawn down facilities had been breached (2016:$ nil).[175 and 176 on page 113]

27 OBLIGATIONS UNDER FINANCE LEASES

HKAS 17.31(b)
A16(22)

At 31 December 2017, the group had obligations under finance leases repayable as follows:

	2017		2016	
	Present value of the minimum lease payments $'000	**Total minimum lease payments $'000**	Present value of the minimum lease payments $'000	Total minimum lease payments $'000
Within 1 year	**1,210**	**1,310**	987	1,066
After 1 year *but within 2 years*	**2,069**	**2,405**	1,875	2,180
After 2 years[177] but within 5 years	**2,538**	**3,620**	2,260	3,074
After 5 years	**3,823**	**6,205**	3,412	6,414
	8,430	**12,230**	7,547	11,668
	9,640	**13,540**	8,534	12,734
Less: total future interest expenses		**(3,900)**		(4,200)
Present value of lease obligations		**9,640**		8,534

HKAS 17.31(b)
HKFRS 7.39(a)

177 Under HKAS 17, unlisted entities need only analyse their obligations under finance leases between amounts payable in the next year, amounts payable in the second to fifth years inclusive and aggregate amounts payable after five years, from the end of the reporting period. However, further detailed analysis of the timing of these cash flows may also need to be given in order to satisfy the requirements under paragraph 39(a) of HKFRS 7 regarding the maturity analysis for financial liabilities (see note 33(b) to these illustrative financial statements) depending on the time bands used in the maturity analysis.

HKAS 19.135

178 HKAS 19 sets out the following objectives for disclosures about defined benefit plans of an entity:

- to explain the characteristics of its defined benefit plans and risks associated with them;
- to identify and explain the amounts in its financial statements arising from its defined benefit plans; and
- to describe how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

HKAS 19.139-150 lists out the disclosures required by the standard. However, HKAS 19.137 explicitly requires that if the disclosures provided in accordance with the requirements in the standard and other HKFRSs are insufficient to meet the above disclosure objectives, the entity should disclose additional information necessary to meet them.

HKAS 19.139

179 HKAS 19.139 lists out the disclosures required in respect of the characteristics of defined benefit plans and risks associated with them, including:

- the nature of the benefits provided by the plan;
- a description of the regulatory framework in which the plan operates;
- a description of any other entity's responsibilities for the governance of the plan, e.g. responsibilities of trustees or board members of the plans;
- a description of the risks to which the plan exposes the entity; and
- a description of any plan amendments, curtailments and settlements.

Entities should consider the level of detail necessary to satisfy the disclosure requirements.

28 EMPLOYEE RETIREMENT BENEFITS

(a) Defined benefit retirement plans[178, 179]

HKAS 19.139(a)

The group makes contributions to two defined benefit retirement plans registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO"), which cover [●]% of the group's employees. The plans are administered by trustees, the majority of which are independent, with their assets held separately from those of the group. The trustees are required by the Trust Deed to act in the best interest of the plan participants and are responsible for setting investment policies of the plans.

Under the plans, a retired employee is entitled to an annual pension payment equal to [●] of final salary for each year of service that the employee provided.

A16(26)(1)
HKAS 19.147(a)
A16(26)(3)

The plans are funded by contributions from the group in accordance with an independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuations of the plans were at 31 December 2017 and were prepared by qualified staff of ABC Company Limited, who are members of the Society of Actuaries of the United States of America, using the projected unit credit method. *The actuarial valuations indicate that the group's obligations under these defined benefit retirement plans are [●]% (2016: [●]%) covered by the plan assets held by the trustees.*

HKAS 19.139(b)

The plans expose the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk. Since the two retirement plans have similar risks and features, information about the two plans is aggregated and disclosed below:[180]

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2017	2016
	$'000	$'000
Present value of wholly or partly funded obligations	**124,884**	113,210
Fair value of plan assets[181]	**(121,000)**	(110,000)
	3,884	3,210

HKAS 1.61
HKAS 19.147(b)

A portion of the above liability is expected to be settled after more than one year.[182] However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The group expects to pay $[●] in contributions to defined benefit retirement plans in 2018.

HKAS 19.138 — 180 If an entity has more than one defined benefit plan, it should assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks.

HKFRS 13.7(a) — 181 Plan assets measured at fair value under HKAS 19 are subject to HKFRS 13's measurement requirements, but are scoped out from HKFRS 13's disclosure requirements as HKAS 19 contains specific disclosure requirements on disclosing fair value of plan assets.

HKAS 1.61 — 182 HKAS 1 requires disclosure of the amount expected to be recovered or settled after more than one year, when any balance combines this with amounts expected to be recovered or settled within one year. In our view, where it is not practicable to make such a distinction, it is sufficient if the financial statements state this fact and explain why. See also footnote 54 on page 32.

HKAS 19.142-143 (ii) Plan assets consist of the following:[183]

	2017	2016
	$'000	$'000
Equity securities:		
- Consumer markets	**21,852**	18,584
- Financial institutions	**31,452**	30,589
- Telecommunication	**16,600**	14,820
	69,904	63,993
Government bonds	**50,493**	45,467
Company's own ordinary shares	**603**	540
	121,000	110,000

All of the equity securities and government bonds and the company's own ordinary shares have quoted prices in active markets. The government bonds have a credit rating of [●] to [●].

HKAS 19.146 At the end of each reporting period, an Asset-Liability Matching study is performed by the trustees to analyse the outcome of the strategic investment policies. The investment portfolio targets a mix of [●]-[●]% in equity securities across a range of industries, [●]-[●]% in government bonds, and [●]-[●]% in other investments. Interest rate risk is managed with the objective of reducing the risk by [●]% by investing in government bonds.[184]

HKAS 19.142 183 HKAS 19 requires entities to disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not. HKAS 19.142 includes examples of how the plan assets may be distinguished.

HKAS 19.146 184 Some plans or entities may use an asset-liability matching strategy to match the amount and timing of cash inflows from plan assets with those of cash outflow from the defined benefit obligation. If such matching strategy has been used by the plans or by the entities, HKAS 19.146 requires the entities to provide information about the strategy, including the use of annuities or other techniques, such as longevity swaps, to manage risk.

HKAS 19.141(c)(ii)&(iii) 185 Actuarial gains and losses arising from changes in demographic assumptions are required to be disclosed separately from those arising from changes in financial assumptions.

HKAS 19.141(f) 186 Contributions to the plan by employer should be separately disclosed from contributions by plan participants. In HK Listco's assumed circumstances, the contributions are wholly made by the group (i.e. the employer).

HKAS 19.123-126 187 Net interest on the net defined benefit liability (asset) comprises of interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling.

HKAS 19 does not specify where net interest and service cost should be presented in profit or loss. It also does not specify whether they should be presented separately or as components of a single item of income or expense. An entity should therefore choose an approach, to be applied consistently, to the presentation of net interest and service cost. In order to help identify amounts in the financial statements arising from defined benefit plans, entities should also disclose how and where the costs have been recognised in profit or loss.

HKAS 19.144 188 HKAS 19.144 requires entities to disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. Entities should apply judgement to determine which actuarial assumptions are significant to the valuation and therefore require disclosure.

The disclosure of significant actuarial assumptions should be in absolute terms, e.g. as an absolute percentage. When an entity has more than one defined benefit plan and provides disclosures in total, it should disclose the significant actuarial assumptions in the form of weighted averages or relatively narrow ranges.

(iii) Movements in the present value of the defined benefit obligation

HKAS 19.140(a)(ii)

		2017	2016
		$'000	$'000
	At 1 January:	**113,210**	99,400
	Remeasurements:		
HKAS 19.141(c)(ii)	- Actuarial losses arising from changes in demographic assumptions[185]	**35**	18
HKAS 19.141(c)(iii)	- Actuarial losses arising from changes in financial assumptions	**25**	32
		60	50
HKAS 19.141(g)	Benefits paid by the plans	**(7,988)**	(5,500)
HKAS 19.141(a)	Current service cost	**12,809**	13,080
HKAS 19.141(b)	Interest cost	**6,793**	6,180
	At 31 December	**124,884**	113,210

HKAS 19.147(c) The weighted average duration of the defined benefit obligation is [●] years (2016: [●] years).

(iv) Movements in plan assets

HKAS 19.140(a)(i)

		2017	2016
		$'000	$'000
	At 1 January:	**110,000**	96,490
HKAS 19.141(f)	Group's contributions paid to the plans[186]	**13,187**	13,720
HKAS 19.141(g)	Benefits paid by the plans	**(7,988)**	(5,500)
HKAS 19.141(b)	Interest income	**5,750**	5,250
HKAS 19.141(c)(i)	Return on plan assets, excluding interest income	**51**	40
	At 31 December	**121,000**	110,000

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2017	2016
	$'000	$'000
Current service cost	**12,809**	13,080
Net interest on net defined benefit liability[187]	**1,043**	930
Total amounts recognised in profit or loss	**13,852**	14,010
Actuarial losses	**60**	50
Return on plan assets, excluding interest income	**(51)**	(40)
Total amounts recognised in other comprehensive income	**9**	10
Total defined benefit costs	**13,861**	14,020

HKAS 19.145 and 173(b)

[189] Entities are required to disclose a sensitivity analysis for significant actuarial assumptions. In accordance with HKAS 19.145, an entity should disclose:

- a sensitivity analysis for each significant actuarial assumption as disclosed under HKAS 19.144 as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date;
- the methods and assumptions used in preparing the sensitivity analyses and the limitations of those methods; and
- changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

The current service cost and the net interest on net defined benefit liability are recognised in the following line items in the consolidated statement of profit or loss:[187]

	2017	2016
	$'000	$'000
Cost of sales	**10,655**	10,772
Distribution costs	**1,353**	1,370
Administrative expenses	**1,844**	1,868
	13,852	14,010

(vi) Significant actuarial assumptions[188] (expressed as weighted averages) and sensitivity analysis[189] are as follows:

HKAS 19.144

	2017	2016
Discount rate	**[●]%**	[●]%
Future salary increases	**[●]%**	[●]%

HKAS 19.145 The below analysis shows how the defined benefit obligation would have increased (decreased) as a result of [●]% change in the significant actuarial assumptions:

HKAS 19.145(a)

	Increase in [●]%		**Decrease in [●]%**	
	2017	2016	**2017**	2016
	$'000	$'000	**$'000**	$'000
Discount rate	**([●])**	([●])	**[●]**	[●]
Future salary increases	**[●]**	[●]	**([●])**	([●])

HKAS 19.145(b) The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plan

The group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its
A16(26)(1) *employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to*
A16(26)(2) *the plan vest immediately.*

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS

HKFRS 2.45

The company has a share option scheme which was adopted on 1 March 2013 whereby the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options at nil consideration to subscribe for shares of the company[190]. The options vest after one year from the date of grant and are then exercisable within a period of two years. Each option gives the holder the right to subscribe for one ordinary share in the company and is settled gross in shares.

(a) The terms and conditions of the grants are as follows:

HKFRS 2.45(a)

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
- on 1 November 2014	200,000	One year from the date of grant	3 years
- on 1 July 2016	1,500,000	One year from the date of grant	3 years
Options granted to employees:			
- on 1 July 2016	5,000,000	One year from the date of grant	3 years
- on 1 May 2017	500,000	One year from the date of grant	3 years
Total share options granted	7,200,000		

R17.10

[190] Chapter 17 of the Main Board Listing Rules also requires the disclosure of the basis of determining the exercise price under the terms of the share option scheme. This would include separate disclosure of the bases adopted before and after 1 September 2001 if the bases differed and the scheme was still in existence. This information may be disclosed in the annual financial statements or in the directors' report (as has been illustrated in this annual report: see page 18)

(b) The number and weighted average exercise prices of share options are as follows:

HKFRS 2.45(b) & (c)

	2017		2016	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
		'000		'000
Outstanding at the beginning of the period	**$6.00**	**6,700**	$6.00	200
Exercised during the period	**$6.00**	**(1,000)**	-	-
Forfeited during the period[191]	**$6.00**	**(200)**	-	-
Granted during the period	**$6.50**	**500**	$6.00	6,500
Outstanding at the end of the period	**$6.04**	**6,000**	$6.00	6,700
Exercisable at the end of the period	**$6.00**	**5,500**	$6.00	200

HKFRS 2.45(c)

The weighted average share price at the date of exercise for shares options exercised during the year was $6.60 (2016: not applicable).[192]

HKFRS 2.45(d)

The options outstanding at 31 December 2017 had an exercise price of $6.00 or $6.50 (2016: $6.00) and a weighted average remaining contractual life of 1.6 years (2016: 2.5 years).[193]

(c) Fair value[194] of share options and assumptions

HKFRS 2.47
R17.08

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

HKFRS 2.47(a)(i)
R17.08

Fair value of share options and assumptions	2017	2016
Fair value at measurement date	**$0.40**	$0.50
Share price	**$6.50**	$6.00
Exercise price	**$6.50**	$6.00
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**[•]%**	[•]%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**[•] years**	[•] years
Expected dividends	**[•]%**	[•]%
Risk-free interest rate (based on Exchange Fund Notes)	**[•]%**	[•]%

HKFRS 2.45(b) 191 Grants which expired during the period should also be disclosed separately, if applicable.

HKFRS 2.45(c) 192 If options were exercised on a regular basis throughout the period, the weighted average share price during the period may be disclosed as an alternative.

HKFRS 2.45(d) 193 If the range of exercise prices is wide, the outstanding options could be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon the exercise of those options.

HKFRS 13.6(a) 194 Share-based payment transactions accounted for under HKFRS 2 are scoped out from both the measurement and disclosure requirements of HKFRS 13. The fair value of share-based payments therefore continues to be measured and disclosed in accordance with HKFRS 2.

HKFRS 2.47(a)(ii)
R17.08

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends[195]. *Changes in the subjective input assumptions could materially affect the fair value estimate.*

HKFRS 2.47(a)(iii)

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

HKAS 1.77

	2017	2016
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**13,000**	14,849
Provisional Profits Tax paid	**(6,250)**	(8,639)
	6,750	6,210
Balance of Profits Tax provision relating to prior years	**-**	740
	6,750	6,950

R17.08

[195] If expected dividends have been adjusted for any publicly available information indicating that future performance is reasonably expected to differ from past performance, then listed issuers are required to disclose an explanation.

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

HKAS 12.81(g)(i) The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax arising from:	Revaluation of investment property $'000	Depreciation allowances in excess of the related depreciation $'000	Revaluation of other properties $'000	Amortisation of other intangibles $'000	Defined benefit retirement plan liability[196] $'000	Provision for product warranties $'000	Convertible notes $'000	Cash flow hedges $'000	Undistributed profits of foreign joint venture $'000	Total $'000
	At 1 January 2016	1,645	8,622	256	2,363	(481)	(3,308)	72	599	-	9,768
HKAS 12.81(g)(ii)	Charged/(credited) to profit or loss	1,141	(747)	(339)	157	(53)	(315)	(16)	-	8	(164)
HKAS 12.81(a)	Charged/(credited) to reserves	-	-	846	-	-	-	-	(95)	-	751
	At 31 December 2016	2,786	7,875	763	2,520	(534)	(3,623)	56	504	8	10,355
	At 1 January 2017	2,786	7,875	763	2,520	(534)	(3,623)	56	504	8	10,355
HKAS 12.81(g)(ii)	Charged/(credited) to profit or loss	1,650	3,438	(464)	144	(119)	(402)	(16)	-	33	4,264
HKAS 12.81(a)	Charged/(credited) to reserves	-	-	2,138	-	-	-	-	(102)	-	2,036
	At 31 December 2017	**4,436**	**11,313**	**2,437**	**2,664**	**(653)**	**(4,025)**	**40**	**402**	**41**	**16,655**

[196] In accordance with HKAS 12.61A, current and deferred tax should be recognised outside profit or loss if the tax relates to items that are recognised outside profit or loss. Under HKAS 19, remeasurements of the net defined benefit liability (asset) are recognised in other comprehensive income, and net interest on the net defined benefit liability (asset) and service cost are recognised in profit or loss. In cases of cash contributions to funded post-employment benefit plans, it may be difficult to determine how the related current income taxes should be allocated between profit or loss and OCI because the cash contribution itself does not affect the profit or loss or OCI and it may not be clear what the cash contribution is funding. In our view, the allocation of the current income tax effect to profit or loss and OCI should reflect the nature of the cash contribution, unless it is impracticable to identify whether the cost, to which the funding relates, affects profit or loss or OCI. We believe that a number of allocation approaches are acceptable if the nature of the cash contribution is unclear, including the following:

- Approach A: allocate current income taxes first to profit or loss, to the extent of the tax effects of the total service cost and net interest recognised in profit or loss in the current period, and then allocate any residual amount to OCI;
- Approach B: allocate the entire amount of current income tax related to contributions to profit or loss; and
- Approach C: allocate the entire amount of income tax related to contributions to OCI.

HK Listco adopts approach B and allocates the entire amount of current income tax related to contributions to profit or loss.

(ii) Reconciliation to the consolidated statement of financial position

HKAS 1.77

	2017 **$'000**	2016 $'000
Net deferred tax asset recognised in the consolidated statement of financial position	**(2,539)**	(3,495)
Net deferred tax liability recognised in the consolidated statement of financial position	**19,194**	13,850
	16,655	10,355

(c) Deferred tax assets not recognised

HKAS 12.81(e)

In accordance with the accounting policy set out in note 1(x), the group has not recognised deferred tax assets in respect of cumulative tax losses of $3,560,000 (2016: $2,480,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

HKAS 12.81(f) & 87

At 31 December 2017, temporary differences relating to the undistributed profits of subsidiaries amounted to $793,000 (2016: $640,000). Deferred tax liabilities of $238,000 (2016: $192,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

31 PROVISIONS

Provision for electronic product warranties

		$'000
HKAS 37.84(a)	At 1 January 2017[197]	**20,700**
HKAS 37.84(b)	Additional provisions made[198]	**12,400**
HKAS 37.84(c)	Provisions utilised	**(10,100)**
HKAS 37.84(a)	At 31 December 2017	**23,000**
	Less: amount included under "current liabilities"	**(10,900)**
		12,100

HKAS 37.85

Under the terms of the group's sales agreements, the group will rectify any product defects arising within two years of the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the two years prior to the end of the reporting period. The amount of provision takes into account the group's recent claim experience and is only made where a warranty claim is probable. Where the group has the benefit of product liability insurance, a separate asset is recognised for any expected reimbursement that would be virtually certain if a warranty

HKAS 37.84 — [197] Comparative information is not required for the analysis of the movements in the provision, as HKAS 37 gives a specific exemption in this regard.

HKAS 37.84(e) — [198] It is assumed that the provision has not been discounted on the grounds of materiality. If the provision has been discounted, the increase in the provision arising from the discount unwinding should be separately disclosed.

claim were to be made. As at the end of the reporting period $2,158,000 (2016: $1,752,000) is included within trade and other receivables in current assets in respect of such expected reimbursements, of which an amount of $1,200,000 (2016: $960,000) is expected to be recovered after more than one year.[163 on page 104]

Sch 4, Part 1, Section 2(1)(b)
HKAS 1.79(b), 106(d)) & 108
HKAS 16.77(f)
HKAS 21.52(b)

32 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below[199]:

Company	Note	Share capital $'000	Capital reserve $'000	Property revaluation reserve $'000	Hedging reserve $'000	Fair value reserve $'000	Retained profits $'000	Total $'000
Balance at 1 January 2016	37	175,000	134	751	869	150	141,957	318,861
Changes in equity for 2016:								
Total comprehensive income for the year		-	-	966	(99)	300	98,162	99,329
Dividends approved in respect of the previous year	32(b)	-	-	-	-	-	(45,000)	(45,000)
Equity settled share-based transactions		-	1,625	-	-	-	-	1,625
Dividends declared in respect of the current year	32(b)	-	-	-	-	-	(27,000)	(27,000)
Balance at 31 December 2016 and 1 January 2017		175,000	1,759	1,717	770	450	168,119	347,815
Changes in equity for 2017:								
Total comprehensive income for the year		-	-	1,405	(128)	1,119	117,867	120,263
Dividends approved in respect of the previous year	32(b)	-	-	-	-	-	(49,500)	(49,500)
Purchase of own shares	32(c)(iii)	-	-	-	-	-	(3,390)	(3,390)
Shares issued under share option scheme	32(c)(iv)	6,400	(400)	-	-	-	-	6,000
Equity settled share-based transactions		-	1,658	-	-	-	-	1,658
Dividends declared in respect of the current year	32(b)	-	-	-	-	-	(29,850)	(29,850)
Balance at 31 December 2017	37	**181,400**	**3,017**	**3,122**	**642**	**1,569**	**203,246**	**392,996**

199 As specifically required by section 2(1)(b) of Part 1 of Schedule 4 to the CO, when a company prepares consolidated financial statements, those financial statements should include a note disclosing the movement of the company's reserves.

(b) Dividends[200]

HKAS 1.107

(i) Dividends payable to equity shareholders of the company attributable to the year

	2017 $'000	2016 $'000
Interim dividend declared and paid of 30 cents per ordinary share (2016: 30 cents per ordinary share)	**29,850**	27,000
Final dividend proposed after the end of the reporting period of 60 cents per ordinary share (2016: 55 cents per ordinary share) (HKAS 1.137(a), HKAS 10.13)	**59,700**	49,500
	89,550	76,500

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2017 $'000	2016 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 55 cents per share (2016: 50 cents per share)	**49,500**	45,000

(iii) Dividends on redeemable preference shares issued by the company

HKAS 1.79(a)

Dividends on redeemable preference shares are paid semi-annually in arrears at a rate of 5% per annum of the shares' face value on 30 June and 31 December each year as from their issue date of 1 January 2016. Dividends of $100,000 (2016: $100,000) were paid during the period and unpaid dividends of $100,000 (2016: $100,000) were accrued as at 31 December 2017. Dividends on redeemable preference shares are included in finance costs (note 5(a)).

HKAS 1.107 & 113 [200] Paragraph 107 of HKAS 1 requires entities to disclose either in the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to owners during the period and the related amount per share.

(c) Share capital

(i) Issued share capital

	2017		2016	
	No. of shares ('000)	**$'000**	No. of shares ('000)	$'000
HKAS 1.79(a)(ii) & (iv) **Ordinary shares, issued and fully paid:**				
At 1 January	**90,000**	**175,000**	90,000	175,000
Bonus issue	**9,000**	**-**	-	-
Shares repurchased[201]	**(500)**	**-**	-	-
Shares issued under share option scheme	**1,000**	**6,000**	-	-
Transfer from capital reserve	**-**	**400**	-	-
At 31 December	**99,500**	**181,400**	90,000	175,000

HKAS 1.79(a)(iii)

CP

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the company do not have a par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

	2017		2016	
	No. of shares ('000)	**$'000**	No. of shares ('000)	$'000
Redeemable preference shares, issued and fully paid:				
At 1 January	**4,000**	**4,000**	-	-
Shares issued	**-**	**-**	4,000	4,000
At 31 December	**4,000**	**4,000**	4,000	4,000

CP

Redeemable preference shares do not carry the right to vote. On liquidation of the company the redeemable preference shareholders would participate only to the extent of the face value of the shares adjusted for any dividends in arrears. Based on their terms and conditions, the redeemable preference shares have been presented as liabilities in the statement of financial position. Further details of these terms are set out in note 25(b)(iii).

(ii) Bonus issue

C(DR)R.5

On 8 January 2017, the company made a bonus issue on the basis of 1 bonus share for every 10 existing shares held by shareholders in recognition of their continual support. A total of 9,000 ordinary shares were issued pursuant to the bonus issue.

(iii) Purchase of own shares

A16(10)(4) R10.06(4)(b)

During the year, the company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	*Number of shares repurchased*	*Highest price paid per share $*	*Lowest price paid per share $*	*Aggregate price paid $'000*
February 2017	*300,000*	*6.65*	*6.55*	*2,040*
May 2017	*200,000*	*6.80*	*6.70*	*1,350*
				3,390

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid on the repurchased shares of $3,390,000 was paid wholly out of retained profits.[201]

(iv) Shares issued under share option scheme

A16(10)(2)

On 1 February 2017, options were exercised to subscribe for 1,000,000 ordinary shares in the company at a consideration of $6,000,000, all of which was credited to share capital. $400,000 was transferred from the capital reserve to the share capital account in accordance with policy set out in note 1(w)(iii).

HKAS 1.79(b)

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve comprises the following:

- the portion of the grant date fair value of unexercised share options granted to employees of the company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(w)(iii); and
- the amount allocated to the unexercised equity component of convertible notes issued by the company recognised in accordance with the accounting policy adopted for convertible notes in note 1(r)(i).

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in notes 1(i)(ii) and 1(aa).

(iii) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 1(k).

[201] When a company repurchases the shares out of distributable profits under section 257 of the CO, it should record the debit entry to its "retained profits" and reduce the number of shares in issue for the shares cancelled under section 269 of the CO.

For overseas incorporated companies, the relevant overseas legislation in relation to repurchase of shares would need to be followed.

HKAS 16.77(f)

The property revaluation reserve of the company is distributable to the extent of $567,000 (2016: $250,000)[202].

(iv) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(i)(i).

(v) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in notes 1(g) and 1(n)(i).

HKAS 1.134 & 135

(e) Capital management[203]

The group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and obligations under finance leases but excludes redeemable preference shares) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

During 2017, the group's strategy, which was unchanged from 2016, was to maintain the adjusted net debt-to-capital ratio at the lower end of the range [●]% to [●]%. In order to maintain or adjust the ratio, the group may adjust the amount of dividends paid to

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202 As discussed in footnote 14 on page 14, Part 6 of the new CO "Distribution of profits and assets" contains provisions that deal with distribution of profits and assets by a Hong Kong incorporated company to its members. The provisions of Part 6 are closely based on the equivalent requirements of the predecessor Companies Ordinance (Cap. 32). For example, under section 292(5) of the new CO, property revaluation reserve can be treated as realised to the extent that depreciation charged to the statement of profit or loss/the statement of profit or loss and other comprehensive income on revalued assets exceeds the amount that would have been charged based on the historical cost of those assets. This is consistent with the previous requirements in section 79K(2) of the predecessor Companies Ordinance.

HKAS 1.134 & 135

203 Paragraphs 134 and 135 of HKAS 1 require an entity to disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing "capital", based on the information provided internally to the entity's key management personnel. Because of this "management focus", the extent and level of disclosures will vary from one entity to another. As acknowledged in paragraph 135(b) of HKAS 1, the "capital" that an entity manages may not necessarily be equal to equity as defined in HKFRSs and might also include or exclude some other components. For example, it might include some financial instruments, such as preference shares, which are presented as liabilities in the financial statements, and exclude some items, such as components of equity arising from cash flow hedges. To facilitate comparison across different entities, paragraph 135(a)(i) of HKAS 1 requires an entity to provide a description of what it manages as "capital".

In addition, paragraphs 134 and 135 of HKAS 1 do not prescribe the format of the information required to be disclosed and entities should exercise judgement in deciding the appropriate way to satisfy these requirements. In this regard, paragraphs IG10-IG11 of HKAS 1 provide two examples, one for an entity that is not a regulated financial institution and the other for an entity that is subject to externally imposed capital requirements (see footnote 204 on page 132). These examples serve as a starting point for entities to consider what information to disclose to reflect their individual circumstances.

shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The group's adjusted net debt-to-capital ratio at 31 December 2017 and 2016 was as follows:

	Note	**2017**	2016
		$'000	$'000
Current liabilities:			
Bank loans and overdrafts	26	**33,218**	40,314
Obligations under finance leases	27	**1,210**	987
		34,428	41,301
Non-current liabilities:			
Interest-bearing borrowings	25	**74,802**	72,251
Obligations under finance leases	27	**8,430**	7,547
Total debt		**117,660**	121,099
Add: Proposed dividends	32(b)	**59,700**	49,500
Less: Cash and cash equivalents	22	**(76,580)**	(105,089)
Redeemable preference shares	25	**(3,912)**	(3,912)
Adjusted net debt		**96,868**	61,598
Total equity		**560,447**	486,277
Add: Redeemable preference shares	25	**3,912**	3,912
Less: Hedging reserve	32	**(1,897)**	(2,378)
Proposed dividends	32(b)	**(59,700)**	(49,500)
Adjusted capital		**502,762**	438,311
Adjusted net debt-to-capital ratio		**19%**	14%

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements[204].

maintenance of a specified capital adequacy ratio imposed by the relevant banking regulator), paragraph 135 of HKAS 1 requires disclosure of the nature of those requirements and how those requirements are incorporated into the management of capital. If the entity has not complied with these requirements, the consequences of such non-compliance should also be disclosed.

An entity may be subject to a number of different externally imposed capital requirements (for example, a conglomerate may include entities that undertake insurance activities and banking activities) and may manage capital in a number of ways. Where an aggregate disclosure of these capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's understanding of the entity's capital resources, the entity should disclose separate information for each capital requirement to which the entity is subject.

33 FINANCIAL RISK MANAGEMENT[205] AND FAIR VALUES OF FINANCIAL INSTRUMENTS[206]

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. The group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are described below.[207]

HKFRS 7.1

[205] HKFRS 7, *Financial instruments: Disclosures*, sets out disclosure requirements relating to an entity's exposure to risks arising from financial instruments and is applicable to all entities that hold financial instruments.

The objective of HKFRS 7 is to require entities to provide information that enables users to evaluate:

- the significance of financial instruments for an entity's financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

HKFRS 7.7, 31, 44 & B3

In order to meet this objective HKFRS 7 sets out both qualitative and quantitative minimum disclosure requirements. However, HKFRS 7 does not prescribe either the format of the information required to be disclosed or its location within the financial statements and/or other reports. Instead, the standard states that it is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation (see paragraph B3 of HKFRS 7).

An entity should therefore decide, in light of its circumstances, how much detail it needs to provide to satisfy the requirements of the standard, including how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It should also be noted that HKFRS 7 introduces the concept of looking first to information provided internally to key management personnel (as defined in HKAS 24, *Related party disclosures*), for example the entity's board of directors or chief executive officer, as a source of quantitative data on the entity's exposure to financial risks. Basing disclosures on information used by key management personnel provides information about how management views and manages its risk, as well as about the risks themselves, which the IASB considered was useful information for users of financial statements (as discussed in paragraph BC47 of HKFRS 7). The IASB also considered this approach has practical advantages for preparers because it allows them to use the data they use in managing risk. The requirements of HKFRS 7 in this regard are discussed further in footnote 208 on page 134.

In practice, the requirements of HKFRS 7 will be met by a combination of narrative descriptions and quantitative data, as appropriate to the nature of the instruments and their relative significance to the entity. This information may be either included in the various notes that refer to the specific financial instruments and/or included in a separate note. A mixed approach is illustrated here, as can be seen from the cross references to HKFRS 7 throughout the notes to the illustrative financial statements and the specific note 33 which provides the additional risk and fair value disclosures required by the standard.

HKFRS 7.32A

Paragraph 32A of HKFRS 7 emphasises the interaction between qualitative and quantitative disclosures by stating that providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments.

HKFRS 7.B6

It should also be noted that paragraph B6 of HKFRS 7 explicitly provides for the financial risk disclosures, as set out in paragraphs 31-42 of HKFRS 7, to be given either in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is not part of the financial statements, such as a management commentary, provided it is available to users of the financial statements on the same terms as the financial statements and at the same time. Including all disclosures required by HKFRS within the financial statements themselves helps users in differentiating between disclosures that are required by HKFRS and other information. However, if such information is presented outside the financial statements, then in our view it should be marked clearly as being part of the disclosures required by HKFRS and cross-referenced to the financial statements. An entity could identify such information as, for example, "information that is an integral part of the audited financial statements" or "disclosures that are required by HKFRS".

HKFRS 13.91

[206] As mentioned in footnote 128 on page 87, the disclosure objectives of HKFRS 13 are:

- to provide information that enables users of financial statements to assess the methods and inputs used to develop those measurements, and
- to assess the effect on profit or loss or other comprehensive income of recurring fair value measurements that are based on significant unobservable inputs.

As indicated in these disclosure objectives, HKFRS 13 disclosures aim at helping users understand how the entity determines the fair values of assets and liabilities (both financial and non-financial) recognised in the statement of financial position; and how its financial performance is impacted by the measurement uncertainty and subjectivity involved in determining the fair values as a result of using significant unobservable inputs in the valuations. On the other hand, HKFRS 7's disclosures objectives, as introduced in footnote 205 above, focus on helping users understand the entity's risk exposure associated with financial instruments and how the entity manages the risk.

HKFRS 7.31-36

(a) Credit risk[207, 208]

HKFRS 7.31 & 33
A16(4)(2)(a)

The group's credit risk is primarily attributable to trade and other receivables, listed debt investments and over-the-counter derivative financial instruments entered into for hedging purposes. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within [•] days from the date of billing. Debtors with balances that are more than [•] months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the group does not obtain collateral from customers.[173 on page 111]

HKFRS 7.36(c)

Investments are normally only in liquid securities quoted on a recognised stock exchange, except where entered into for long term strategic purposes. Transactions involving derivative financial instruments are with counterparties of sound credit standing and with whom the group has a signed netting agreement. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

HKFRS 7.32-33

207 HKFRS 7 requires disclosure of qualitative information concerning risks arising from financial instruments and how the entity manages the risks. In particular, HKFRS 7 requires the following to be disclosed for each type of risk arising from financial instruments:

- the exposures to risk and how they arise;
- the entity's objectives, policies and processes for managing the risk and the methods used to manage the risk; and
- any changes in either of the above from the previous period.

Risks that typically arise from financial instruments are identified in paragraph 32 of HKFRS 7 as including, but not being limited to, credit risk, liquidity risk and market risk (which in turn comprises currency risk, interest rate risk and other price risk). Paragraphs IG15-16 of HKFRS 7 list examples of information that an entity might consider disclosing in this regard.

HKFRS 7.34-42 &
B6-B28

208 Paragraph 34 of HKFRS 7 requires disclosure of summary quantitative data about an entity's exposure to each type of risk arising from financial instruments at the end of the reporting period. This disclosure should be given based on the information provided internally to key management personnel of the entity, for example, the board of directors or chief executive officer, and is therefore expected to vary from one entity to another.

It should, however, be noted that certain minimum disclosures (as set out in paragraphs 36-42 of HKFRS 7) are also required to the extent that they are not covered by the disclosures made under the above management approach, and if the risk concerned is material. These include hypothetical sensitivity analyses, as required by paragraph 40, as discussed further in footnote 215 on page 141. In addition, concentrations of risk that arise from financial instruments having similar characteristics (for example, counterparty, geographical area, currency or market) are also required to be disclosed if such concentrations are not apparent from the above information.

If the above quantitative disclosures of exposures at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, the entity should provide additional information that is representative. For example, paragraph IG20 of HKFRS 7 indicates that if the entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose the highest, lowest and average amount of risk to which it was exposed during the year.

HKFRS 7.34(c), B8 & IG18

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, [●]% (2016: [●]%) and [●]% (2016: [●]%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively within the electronics business segment.

HKFRS 7.36(a), B9-B10

Except for the financial guarantees given by the group as set out in note 35(c), the group does not provide any other guarantees which would expose the group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 35(c).[209]

Further quantitative disclosures in respect of the group's exposure to credit risk arising from trade and other receivables are set out in note 20.

HKFRS 7.36(a)

[209] Paragraph 36(a) of HKFRS 7 requires disclosure of the amount, by class of financial instrument, that best represents the entity's maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements. This disclosure is only required for financial instruments whose carrying amount does not best represent the maximum exposure to credit risk, for example financial guarantees and loan commitments.

(b) Liquidity risk[207, 208, 210]

HKFRS 7.31-35

HKFRS 7.39(c)

Individual operating entities within the group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.[212]

HKFRS 7.39 & B10A-11F

210 In respect of minimum quantitative disclosures concerning liquidity risk, paragraph 39 of HKFRS 7 requires disclosure of a maturity analysis for financial liabilities and a description of how an entity manages the liquidity risk inherent in the analysis. This maturity analysis should show the remaining contractual maturities for non-derivative liabilities and for those derivative liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. For other derivatives, it appears that in accordance with paragraph 34(a), the maturity analysis should be based on the information provided internally to key management personnel, even if this is based on expected cash flows and their expected timing.

Similar to other disclosure requirements under HKFRS 7, the standard does not specify the format of the information required, for example, the number of time bands to be used in the maturity analysis (although suggested time bands are set out in paragraph B11 of HKFRS 7). Entities should use their judgement to determine what is appropriate in view of their circumstances and with due regard to the information provided internally to key management personnel.

Paragraphs B11A-11F of HKFRS 7 contain further specific requirements concerning how any maturity analysis of contractual cash flows should be presented. In particular:

- It is clear from paragraph B11D that any contractual cash flows to be disclosed in the analysis should be the gross (i.e. undiscounted) cash flows. These contractual amounts will be different from the amounts recognised in the statement of financial position if the amounts are not due within the short term or payable on demand, as the contractual cash flows will include interest charges, if any, which are payable over the period until the principal is contractually repayable as well as the gross amounts of any principal repayments. Paragraph B11C(a) further states that when a counterparty can ask for payment at different dates, the liability should be included on the basis of the earliest date on which the entity can contractually be required to pay. This means that the disclosure shows a "worst case scenario" for the possible timing of these gross outflows.
- It is clear from paragraph B11A that embedded derivatives (such as conversion options) should not be separated from hybrid financial instruments when disclosing contractual maturities. Instead the contractual cash flows for the instrument as a whole should be disclosed.
- Where a variable amount is contractually payable, paragraph B11D requires that the amount disclosed in the maturity analysis should be determined by reference to the conditions existing at the end of the reporting period. For example, when interest charges are contractually determined by reference to a floating rate of interest, the amount disclosed in the maturity analysis would be based on the level of the index at the end of the reporting period.
- Where the entity has issued a financial guarantee, paragraph B11C(c) states that the maximum amount that could be payable under the guarantee should be allocated to the earliest period in which the guarantee could be called. This disclosure is not dependent on whether it is probable that the entity will be required to make payments under the contract.

However, HKFRS 7 does not include any specific guidance which deals with the question of how to analyse gross cash flows arising under perpetual debt. In this regard, whilst the principal amount of the debt does not give rise to liquidity risk for the entity (as the timing of repayment is neither contractually fixed nor under the control of the holder), any contractual periodic payments of interest would generally give rise to liquidity risk and should be included in the maturity analysis in the discrete time bands of, for example, "within one year" and "more than one year but less than two years" and so on. However, as there is, by definition, no fixed end date to the stream of periodic interest payments on perpetual debt, the gross cash flows to be included in the final non-discrete time band (being here defined as "more than five years") generally cannot be properly determined. To deal with this issue where the effect is material, in our view, the entity should include a footnote disclosure which highlights the existence of these gross payments to perpetuity and explains the extent to which they have been dealt with in the analysis.

HKFRS 7.39(a) & (b)

The following tables show the remaining contractual maturities at the end of the reporting period of the group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the group can be required to pay:[210, 211]

	2017						**2016**					
	Contractual undiscounted cash outflow						Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	**More than 1 year but less than 2 years $'000**	**More than 2 years but less than 5 years $'000**	**More than 5 years $'000**	**Total $'000**	**Carrying amount at 31 Dec $'000**	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount at 31 Dec $'000
Unsecured debenture	**400**	**400**	**1,200**	**5,400**	**7,400**	**5,000**	400	400	1,200	5,800	7,800	5,000
Convertible notes	**550**	**10,550**	**-**	**-**	**11,100**	**9,542**	550	550	10,550	-	11,650	9,356
Redeemable preference shares and dividends payable	**400**	**400**	**4,800**	**-**	**5,600**	**4,012**	400	400	5,200	-	6,000	4,012
Bank loans	**34,878**	**5,964**	**55,087**	**7,365**	**103,294**	**82,635**	43,483	3,715	56,718	9,967	113,883	87,602
Finance lease liabilities	**1,310**	**2,405**	**3,620**	**6,205**	**13,540**	**9,640**	1,066	2,180	3,074	6,414	12,734	8,534
Loans from associates	**251**	**242**	**3,145**	**-**	**3,638**	**2,665**	106	136	150	1,161	1,553	906
Loans from non-controlling shareholders	**338**	**360**	**3,480**	**-**	**4,178**	**3,000**	338	360	3,880	-	4,578	3,000
Bills payable, creditors and accrued charges	**156,481**	**-**	**-**	**-**	**156,481**	**156,481**	135,007	-	-	-	135,007	135,007
Amounts due to ultimate holding company	**4,500**	**-**	**-**	**-**	**4,500**	**4,500**	4,500	-	-	-	4,500	4,500
Amounts due to fellow subsidiaries	**4,700**	**-**	**-**	**-**	**4,700**	**4,700**	4,200	-	-	-	4,200	4,200
Bank overdrafts	**1,266**	**-**	**-**	**-**	**1,266**	**1,266**	2,789	-	-	-	2,789	2,789
Interest rate swaps (net settled)	**23**	**29**	**116**	**-**	**168**	**128**	9	15	51	-	75	52
	205,097	**20,350**	**71,448**	**18,970**	**315,865**	**283,569**	192,848	7,756	80,823	23,342	304,769	264,958
Financial guarantees issued:												
Maximum amount guaranteed (note 35(c))	**200**	**-**	**-**	**-**	**200**	**6**	500	-	-	-	500	8

HKFRS 7.B10A

211 Where quantitative data about exposure to liquidity risk is based on information provided internally to key management personnel (i.e. in accordance with paragraph 34(a) of HKFRS 7) rather than contractual maturities, paragraph B10A requires an entity to explain how the liquidity risk data are determined. In addition, if the outflows of cash (or another financial asset) included in this liquidity risk data could either:

- occur significantly earlier than indicated in the data (for example if repayable on demand); or
- be for significantly different amounts from those indicated in the data (for example, if a counter-party could demand gross settlement for a derivative that is included in the data on a net settlement basis)

then the entity should state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk (unless the information has already been provided in the contractual maturity analysis required by paragraph 39 of HKFRS 7).

HKFRS 7.B11E-11F

212 Paragraph 39(c) of HKFRS 7 requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative liquidity risk disclosures. In this regard, paragraph B11E requires an entity to disclose a maturity analysis of the financial assets it holds for managing the liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. Paragraph B11F lists out other factors that an entity might consider including in this disclosure.

	2017 Contractual undiscounted cash inflow/(outflow)					2016 Contractual undiscounted cash inflow/(outflow)				
	Within 1 year or on demand $'000	**More than 1 year but less than 2 years $'000**	**More than 2 years but less than 5 years $'000**	**More than 5 years $'000**	**Total $'000**	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000
Derivatives settled gross:										
Forward foreign exchange contracts held as cash flow hedging instruments (note 33(d)(i)):										
- outflow	**(158,040)**	**-**	**-**	**-**	**(158,040)**	(142,260)	-	-	-	(142,260)
- inflow	**157,176**	**-**	**-**	**-**	**157,176**	143,315	-	-	-	143,315
Other forward foreign exchange contracts (note 33(d)(ii)):										
- outflow	**(15,384)**	**-**	**-**	**-**	**(15,384)**	(3,618)	-	-	-	(3,618)
- inflow	**15,129**	**-**	**-**	**-**	**15,129**	3,589	-	-	-	3,589

HKFRS 7.39(c) As shown in the above analysis, bank loans amounting to $34,878,000 were due to be repaid during 2018. The short-term liquidity risk inherent in this contractual maturity date has been addressed after the end of the reporting period by re-financing $10,000,000 of the loan, as disclosed in note 38(c).

HKFRS 7.31-35 & 40-42

(c) Interest rate risk[207 and 208 on page 134]

The group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. The group adopts a policy of ensuring that between [●]% and [●]% of its net borrowings are effectively on a fixed rate basis, either through the contractual terms of the interest-bearing financial assets and liabilities or through the use of interest rate swaps. For this purpose the group defines "net borrowings" as being interest-bearing financial liabilities (excluding redeemable preference shares) less interest-bearing investments (excluding cash held for short-term working capital purposes). The group's interest rate profile as monitored by management is set out in (ii) below.

(i) Hedging

HKFRS 7.31, 33 & 22-24

Interest rate swaps, denominated in Hong Kong dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure consistent with the group's policy. At 31 December 2017, the group had interest rate swaps with a notional contract amount of $40,000,000 (2016: $40,000,000), which it has designated as cash flow hedges of the interest rate risk inherent in its variable rate bank borrowings.[213]

HKFRS 7.22(b)

The swaps mature over the next [●] years matching the maturity of the related loans (see note 33(b)) and have fixed swap rates ranging from [●]% to [●]% (2016: [●]% to [●]%). The net fair value of swaps entered into by the group at 31 December 2017 was $1,535,000 (2016: $1,437,000). These amounts are recognised as derivative financial instruments and are included within "Trade and other receivables" (note 20) and "Trade and other payables" (note 24).

HKFRS 7.22, 33(b)

213 Where hedging activities are material and/or the nature of the hedged risk or hedging instrument is such that material hedge ineffectiveness may occur, it would be also be pertinent to describe how the entity determines and monitors effectiveness and under what conditions ineffectiveness may occur.

(ii) Interest rate profile[214]

HKFRS 7.34 & 35

The following table details the interest rate profile of the group's net borrowings (as defined above) at the end of the reporting period, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments (see (i) above).

	2017		2016	
	Effective interest rate %	**$'000**	Effective interest rate %	$'000
Net fixed rate borrowings:				
Finance lease liabilities	**[•]**	**9,640**	[•]	8,534
Bank loans	**[•]**	**79,581**	[•]	84,119
Unsecured debentures	**[•]**	**5,000**	[•]	5,000
Convertible notes	**[•]**	**9,542**	[•]	9,356
Less: Held-to-maturity securities	**[•]**	**(16,466)**	[•]	(15,176)
		87,297		91,833
Variable rate borrowings:				
Bank overdrafts	**[•]**	**1,266**	[•]	2,789
Bank loans	**[•]**	**3,054**	[•]	3,483
Loans from associates	**[•]**	**2,665**	[•]	906
Loans from non-controlling shareholders	**[•]**	**3,000**	[•]	3,000
		9,985		10,178
Total net borrowings		**97,282**		102,011
Net fixed rate borrowings as a percentage of total net borrowings		**89.7%**		90.0%

HKFRS 7.40

(iii) Sensitivity analysis[215]

HKFRS 7.40(a)

At 31 December 2017, it is estimated that a general increase/decrease of [●] basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after tax and retained profits by approximately $[●] (2016: $[●]). Other components of consolidated equity would have increased/decreased by approximately $[●] (2016: $[●]) in response to the general increase/decrease in interest rates.

HKFRS 7.40(b)

The sensitivity analysis above indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group which expose the group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the group at the end of the reporting period, the impact on the group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2016.

HKFRS 7.40(c)

HKFRS 7.34 & 35

214 As explained above in footnote 208, HKFRS 7 takes primarily a management approach to the disclosure of quantitative risk information. Therefore, the extent and format of disclosure may vary from one entity to the next, depending on what information is used internally by key management personnel to monitor interest rate risk.

HKFRS 7.31-35 & 40-42

(d) Currency risk[207 and 208 on page 134]

HKFRS 7.31, 33 & 22-24

The group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Japanese Yen and Australian dollars. The group manages this risk as follows:

HKFRS 7.40-42 & B17-28

215 Paragraph 40 of HKFRS 7 requires a forward-looking sensitivity analysis to be disclosed for each type of market risk (which includes interest rate risk, currency risk and other price risk) to which an entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable (for example, prevailing market interest rates, currency rates, equity prices or commodity prices) that were "reasonably possible" at that date. In addition, the entity is required to disclose the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period in these methods and assumptions used, and the reasons for such changes.

HKFRS 7.41

This requirement applies unless an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables and uses it to manage financial risk. If this is the case then the entity may choose instead to disclose that analysis instead of the sensitivity analysis described in paragraph 40 of HKFRS 7.

HKFRS 7 does not prescribe a format in which a sensitivity analysis should be presented, although paragraph B17 of HKFRS 7 notes that exposures to risks from significantly different economic environments should not be combined. Further guidance in this respect can be found in paragraph B17 of HKFRS 7 and paragraph IG36 of HKFRS 7 contains an illustrative example of a narrative approach to the requirement. Entities should consider their individual circumstances in determining how they should prepare and present the information and care should be taken to ensure that clear descriptions of the methodologies and assumptions used to arrive at the amounts disclosed are provided.

In addition, the following points should be noted when preparing the sensitivity analysis:

- Paragraph B19(b) of HKFRS 7 limits the assessment of what a future "reasonably possible change" in the relevant risk variable might be, to be an assessment of what changes are thought to be reasonably possible in the period until the entity next presents these disclosures. Paragraph B19(b) of HKFRS 7 notes that this is usually the next annual reporting period.
- According to paragraph B19(a) of HKFRS 7, a "reasonably possible change" should not include "worst case" scenarios or "stress tests". Instead, the economic environments in which the entity operates should be considered to identify an appropriate measure. In this respect it should be noted that paragraph B18 of HKFRS 7 indicates that the disclosure would consider changes at the limits of a reasonably possible range (i.e. rather than an arbitrary amount, for example, "1 percentage point change" in all variables). This particularly needs to be remembered where the impact of a greater or smaller change than the change used in the sensitivity analysis would not be directly proportional, for example where an entity has entered into interest rate caps or collars.
- When computing how profit or loss and equity would have been affected by changes in the relevant risk variable, it should be assumed that the "reasonably possible change" in the risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. Further guidance on this is given in paragraphs B18 and IG34-36 of HKFRS 7. In particular, entities are not required to determine what profit or loss for the past period would have been if relevant risk variables had been different. Instead, sensitivity analyses should be prepared based on financial instruments that are recognised at the end of the reporting period even where those exposures did not exist for the entire period, or where the exposures are expected to change significantly during the next period.
- Some financial instruments, although subject to market risk, are not re-measured in the financial statements in response to changes in market risk variables and therefore these changes in market risk variables would not affect profit or loss or equity in such cases. An example is a fixed rate debt instrument denominated in an entity's functional currency and measured at amortised cost. Such instruments would therefore be excluded from the sensitivity analysis calculation.

HKFRS 7.42

If an entity considers that the sensitivity analyses required to be disclosed by HKFRS 7 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity should disclose that fact and the reason it believes the analyses are unrepresentative. Further guidance in this respect can be found in paragraphs IG37-40 of HKFRS 7.

(i) Forecast transactions

At any point in time the group hedges [●]% of its estimated foreign currency exposure in respect of committed future sales and purchases and [●]% of its estimated foreign currency exposure in respect of highly probable forecast sales and purchases, excluding those transactions denominated in United States dollars which are, or are expected to be, entered into by operations with a functional currency of Hong Kong dollars. Such transactions are currently not hedged under the group's foreign currency risk management strategy as the group currently considers the risk of movements in exchange rates between the Hong Kong dollar and the United States dollar to be insignificant.

The group uses forward exchange contracts to hedge its currency risk and classifies these as cash flow hedges[213]. All of the forward exchange contracts have maturities of less than one year after the end of the reporting period.

HKFRS 7.22(b) At 31 December 2017, the group had forward exchange contracts hedging forecast transactions with a net fair value of $764,000 (2016: $1,445,000), recognised as derivative financial instruments.

(ii) Recognised assets and liabilities

HKFRS 7.31 & 33 Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss (see note 5(c)). The net fair value of forward exchange contracts used by the group as economic hedges of monetary assets and liabilities denominated in foreign currencies at 31 December 2017 was $253,000 (2016: $659,000), recognised as derivative financial instruments.

In respect of other trade receivables and payables denominated in foreign currencies, the group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Except for the borrowings designated to hedge a net investment in a subsidiary (as described below), all the group's borrowings are denominated in the functional currency of the entity taking out the loan or, in the case of group entities whose functional currency is Hong Kong dollars, in either Hong Kong dollars or United States dollars. Given this, management does not expect that there will be any significant currency risk associated with the group's borrowings.

(iii) Hedge of net investment in a foreign subsidiary

HKFRS 7.22 The company's Singapore dollar denominated secured bank loan is designated as a hedge of the group's net investment in its subsidiary in Singapore (see note 14). The carrying amount of the loan at 31 December 2017 was $13,950,000 (2016: $14,400,000) and its fair value was $13,469,000 (2016: $14,250,000). A foreign exchange gain of $494,000 (2016: loss of $219,000) was recognised in the group's other comprehensive income for the period on translation of the loan to Hong Kong dollars[213].

(iv) Exposure to currency risk[216]

HKFRS 7.34 & 35

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the group's presentation currency and the exposure arising from the secured bank loan that is designated as a hedge of the group's net investment in its subsidiary in Singapore (see (iii) above) are excluded.

	Exposure to foreign currencies (expressed in Hong Kong dollars)							
	2017				2016			
	United States Dollars $'000	**Euros $'000**	**Japanese Yen $'000**	**Australian Dollars $'000**	United States Dollars $'000	Euros $'000	Japanese Yen $'000	Australian Dollars $'000
Trade and other receivables	**11,144**	**6,831**	**-**	**-**	8,648	3,762	-	-
Cash and cash equivalents	**-**	**-**	**15,628**	**13,440**	-	-	21,436	10,675
Trade and other payables	**-**	**-**	**(27,741)**	**(10,540)**	-	-	(20,362)	(15,250)
Gross exposure arising from recognised assets and liabilities	**11,144**	**6,831**	**(12,113)**	**2,900**	8,648	3,762	1,074	(4,575)
Notional amounts of forward exchange contracts used as economic hedges	**-**	**(5,500)**	**10,714**	**-**	-	(4,400)	-	-
Net exposure arising from recognised assets and liabilities	**11,144**	**1,331**	**(1,399)**	**2,900**	8,648	(638)	1,074	(4,575)

HKFRS 7.34 & 35

216 Other than the requirements for sensitivity analyses for market risk (see footnote 215), HKFRS 7 does not specify the minimum information required to be disclosed in respect of an entity's exposure to currency risk. The currency risk table illustrated above provides an example of summary quantitative data about the exposure to that risk at the end of the reporting period that an entity may provide internally to key management personnel.

HKFRS 7.B23

In this connection, it should be noted that for the purposes of HKFRS 7 currency risk arises on financial instruments that are denominated in a foreign currency (i.e. are denominated in a currency other than the functional currency in which they are measured). However, currency risk does not arise from non-monetary items or from financial instruments denominated in the functional currency of the entity to which they relate.

For example, for the purposes of disclosure under HKFRS 7, currency risk for the group arises if a subsidiary with a functional currency of Thai baht borrows in US dollars, even if the group presentation currency is also US dollars. Currency risk does not arise if that same subsidiary borrows instead in Thai baht. This applies whether or not the counter-party to the borrowing is a third party or another entity within the group.

It follows that the information concerning exposure to currency risk needs to be collated at the operating level when different entities within the group have different functional currencies. That is, each group entity would need to assess its own exposure to currencies other than its own functional currency, with the group's exposure to currency risk disclosed under HKFRS 7 being an aggregation of this information.

HKFRS 7.40 & B24

(v) Sensitivity analysis [215, 216]

HKFRS 7.40(a)

The following table indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2017			2016		
	Increase / (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits $'000**	**Effect on other components of equity $'000**	Increase / (decrease) in foreign exchange rates	Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000
United States Dollars	**[•]%**	**[•]**	**[•]**	[•]%	[•]	[•]
	([•])%	**[•]**	**[•]**	([•])%	[•]	[•]
Euros	**[•]%**	**[•]**	**[•]**	[•]%	[•]	[•]
	([•])%	**[•]**	**[•]**	([•])%	[•]	[•]
Japanese Yen	**[•]%**	**[•]**	**[•]**	[•]%	[•]	[•]
	([•])%	**[•]**	**[•]**	([•])%	[•]	[•]
Australian Dollars	**[•]%**	**[•]**	**[•]**	[•]%	[•]	[•]
	([•])%	**[•]**	**[•]**	([•])%	[•]	[•]

HKFRS 7.40(b)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the group which expose the group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency and the secured bank loan that is designated as a hedge of the group's net investment in its subsidiary in Singapore (see (iii) above). The analysis is performed on the same basis for 2016.

HKFRS 7.40(c)

HKFRS 7.31-35
40-42 & B25-28

(e) Equity price risk[207 and 208 on page 134]

The group is exposed to equity price changes arising from equity investments classified as trading securities (see note 18) and available-for-sale equity securities (see note 17). Other than unquoted securities held for strategic purposes, all of these investments are listed.

The group's listed investments are listed on the Stock Exchange of Hong Kong and are included in the Hang Seng Index. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the group's liquidity needs. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the group.

All of the group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the group, together with an assessment of their relevance to the group's long term strategic plans.

The group is also exposed to equity price risk arising from changes in the company's own share price to the extent that the company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the group. As at the end of the reporting period the group is exposed to this risk through the conversion rights attached to Tranche B of the convertible notes issued by the company as disclosed in note 25(b)(ii).

HKFRS 7.40(a)

At 31 December 2017, it is estimated that an increase/(decrease) of [●]% (2016: [●]%) in the relevant stock market index (for listed investments), the price/earning ratios of comparable listed companies (for unquoted investments) or the company's own share price (for the conversion option of certain convertible bonds) as applicable, with all other variables held constant, would have increased/decreased the group's profit after tax (and retained profits) and other components of consolidated equity as follows:[215 on page 141]

	2017			2016		
		Effect on profit after tax and retained profits $'000	**Effect on other components of equity $'000**		Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000
Change in the relevant equity price risk variable:						
Increase	**[●]%**	**[●]**	**[●]**	[●]%	[●]	[●]
Decrease	**([●])%**	**[●]**	**[●]**	([●])%	[●]	[●]

HKFRS 7.40(b)

The sensitivity analysis indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group which expose the group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables[217], and that all other variables remain constant. The analysis is performed on the same basis for 2016.

[217] This assumption would be appropriate where the available-for-sale portfolio consists of securities that are carried at significantly above cost. However, such an approach would not be appropriate for available-for-sale portfolios which include securities which have already been recorded as impaired and may not be appropriate for portfolios which include securities whose fair values are close to or already below cost at the reporting date. Instead, further consideration would need to be given as to the extent to which the portfolios would need to be segregated for the purposes of computing the sensitivity analyses. For example, an entity may consider it appropriate to separate its available-for-sale portfolio into two sub-portfolios, one consisting of securities carried at above cost and another consisting of securities carried at below cost, and compute the sensitivities of the two sub-portfolios separately in order to estimate the impact on equity and the impact on profit or loss of a reasonably possible fall in the relevant risk variable, if the effect would be material. Such additional complications in the calculation of the sensitivity analysis may also affect the way in which the results of the analysis are disclosed. For example, whereas a narrative format (as illustrated in note 33(c) concerning interest rate risk) works well if an increase or decrease in the risk variable has a symmetrical effect on profit or loss or other components of equity, a tabular format (as illustrated above) would be preferable when the impact is non-symmetrical i.e. when the monetary (nominal) impact of the increase is not the same the monetary impact of the decrease.

HKFRS 13.94

[218] As mentioned in footnote 131 on page 87, for recurring and non-recurring fair value measurements, entities are required to disclose, for each class of assets and liabilities, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Class is determined based on the nature, characteristics and risks of the asset or liability; and the level of the fair value hierarchy within which the fair value measurement is categorised. So far as financial instruments are concerned, "classes" would be determined at a lower level than the "categories" as defined in HKAS 39.9 when the financial instruments within the same category have significantly different nature, characteristics or risks. For example, in these illustrative financial statements, the category "available-for-sale financial assets" is sub-divided into listed and unlisted classes.

HKFRS 13.91-92

(f) Fair value measurement[206 on page 133]

HKFRS 13.93

(i) Financial assets and liabilities measured at fair value[218]

HKFRS 13.93(b)

Fair value hierarchy[130 on page 87]

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs

HKFRS 13.93(g)

The group has a team headed by the finance manager performing valuations for the financial instruments, including unlisted available-for-sale equity securities and conversion option embedded in convertible notes which are categorised into Level 3 of the fair value hierarchy. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.[135 on page 90]

HKFRS 13.93(b)

	Fair value at 31 December 2017 $'000	Fair value measurements as at 31 December 2017 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000	Fair value at 31 December 2016 $'000	Fair value measurements as at 31 December 2016 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurements[129 on page 87]								
Assets:								
Available-for-sale equity securities:								
- Listed	**7,823**	**7,823**	**-**	**-**	6,710	6,710	-	-
- Unlisted	**5,040**	**-**	**-**	**5,040**	4,950	-	-	4,950
Trading securities	**58,331**	**58,331**	**-**	**-**	58,020	58,020	-	-
Derivative financial instruments:								
- Interest rate swaps	**1,663**	**-**	**1,663**	**-**	1,489	-	1,489	-
- Forward exchange contracts	**1,057**	**253**	**804**	**-**	2,124	659	1,465	-
Liabilities:								
Derivative financial instruments:								
- Interest rate swaps	**128**	**-**	**128**	**-**	52	-	52	-
- Forward exchange contracts	**40**	**-**	**40**	**-**	20	-	20	-
- Conversion option embedded in convertible notes	**172**	**-**	**-**	**172**	171	-	-	171

HKFRS 13.93(c), 93(e)(iv)

During the years ended 31 December 2016 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.[132 on page 88]

HKFRS 13.93(d)

Valuation techniques and inputs used in Level 2 fair value measurements[136 on page 90]

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Information about Level 3 fair value measurements[136 on page 90]

	Valuation techniques	**Significant unobservable inputs**	**Range**[137 on page 90]	**Weighted average**[137 on page 90]
Unlisted available-for-sale equity instruments	Market comparable companies	Discount for lack of marketability	[●]% to [●]% (2016: [●]% to [●]%)	[●]% (2016: [●]%)
Conversion option embedded in convertible notes	Binomial lattice model	Expected volatility	[●]% (2016: [●]%)	[●]% (2016: [●]%)

HKFRS 13.93(h)

The fair value of unlisted available-for-sale equity instruments is determined using the price/earning ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 31 December 2017, it is estimated that with all other variables held constant, a decrease/increase in discount for lack of marketability by [●]% would have increased/decreased the group’s other comprehensive income by $[●] (2016: $[●]).

The fair value of conversion option embedded in convertible notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2017, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by [●]% would have decreased/increased the group’s profit by $[●] (2016: $[●]).[219]

HKFRS 13.93(e)&(f)

The movements during the period in the balance of these Level 3 fair value measurements are as follows: [139 on page 90]

	2017	2016
	$’000	$’000
Unlisted available-for-sale equity securities:		
At 1 January	**4,950**	4,800
Payment for purchases	**560**	100
Net unrealised gains or losses recognised in other comprehensive income during the period	**475**	50
Proceeds from sales	**(945)**	-
At 31 December	**5,040**	4,950
Total gains or losses for the period reclassified from other comprehensive income on disposal	**130**	-
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**-**	-

HKFRS 13.93(h)

219 As mentioned in footnote 138 on page 90, for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, entities should give a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. For financial instruments measured at fair value on a recurring basis and categorised within Level 3, a quantitative sensitivity analysis is required in addition to the narrative description.

	2017	2016
	$'000	$'000
Conversion option embedded in convertible notes:		
At 1 January	**171**	169
Changes in fair value recognised in profit or loss during the period	**1**	2
At 31 December	**172**	171
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**1**	2

The gains arising from the disposal of the unlisted available-for-sale equity securities and the remeasurement of the conversion option embedded in the convertible notes are presented in "Other income" in the consolidated statement of profit or loss. The net unrealised gains arising from the remeasurement of the unlisted available-for-sale equity securities are recognised in fair value reserve in other comprehensive income.

(ii) Fair value of financial assets and liabilities carried at other than fair value

HKFRS 7.25
HKFRS 13.97

The carrying amounts of the group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2016 and 2017 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy[220] are disclosed below:

			Fair value measurements as at 31 December 2017 categorised into		
	Carrying amounts at 31 December 2017 $'000	**Fair value at 31 December 2017 $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Held-to-maturity debt securities	**16,466**	**15,300**	**15,300**	**-**	**-**
Convertible notes	**(9,542)**	**(8,580)**	**-**	**-**	**(8,580)**
Redeemable preference shares	**(3,912)**	**(2,878)**	**-**	**-**	**(2,878)**

			Fair value measurements as at 31 December 2016 categorised into		
	Carrying amounts at 31 December 2016 $'000	Fair value at 31 December 2016 $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Held-to-maturity debt securities	15,176	14,020	14,020	-	-
Convertible notes	(9,356)	(8,450)	-	-	(8,450)
Redeemable preference shares	(3,912)	(2,628)	-	-	(2,628)

HKFRS 13.97

220 HKFRS 13.97 requires entities to disclose the following information for each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed:

- level of the fair value hierarchy within which the fair value measurements are categorised in their entirety;
- for fair value measurements categorised within Level 2 and Level 3:
  - a description of the valuation technique(s);
  - a description of the inputs used in the fair value measurement;
  - any change in valuation technique and the reason(s) for making the change; and
- for any non-financial asset whose highest and best use differs from its current use, this fact and the reason why it is being used in a manner that differs from its highest and best use.

For such assets and liabilities, entities need not provide the other disclosures required by HKFRS 13.

Valuation techniques and inputs used in Level 3 fair value measurements

The fair values of the convertible notes and redeemable preference shares are estimated as being the present values of future cash flows, discounted at interest rates based on the government yield curve as at the end of the reporting period plus an adequate constant credit spread, adjusted for the Group's own credit risk.

34 COMMITMENTS

HKAS 16.74(c) **(a) Capital commitments outstanding at 31 December 2017 not provided for in the financial statements were as follows:**

		2017	2016
		$'000	$'000
CP	Contracted for	**1,539**	6,376
	Authorised but not contracted for	**23,000**	660
		24,539	7,036

In addition, the group was committed at 31 December 2017 to enter into a finance lease, the capital value of payments under which amounted to $1,500,000 (2016: $1,350,000).

HKAS 17.35(a) **(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:**

	2017		2016	
	Properties	Others	Properties	Others
	$'000	$'000	$'000	$'000
Within 1 year	**1,700**	**2,760**	1,700	2,110
After 1 year but within 5 years	**5,100**	**6,880**	6,800	4,830
After 5 years	**2,500**	**-**	-	-
	9,300	**9,640**	8,500	6,940

HKAS 17.35(d) Significant leasing arrangements in respect of land and buildings classified as being held under finance leases and land held under operating leases are described in notes 11 and 19.

Apart from these leases, the group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under operating leases. The leases typically run for an initial period of [●] to [●] years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased every [●] years to reflect market rentals. None of the leases includes contingent rentals.[221]

4.12-15 [221] Under HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, if a purchaser/lessee in an arrangement that contains an operating lease concludes that it is impracticable to separate the payments reliably between the operating lease and other elements of the arrangement, it should treat all payments under the arrangement as lease payments for the purposes of complying with the disclosure requirements of HKAS 17, but it should:

(a) disclose those payments separately from minimum lease payments of other arrangements that do not include payments for non-lease elements, and

(b) state that the disclosed payments also include payments for non-lease elements in the arrangement.

35 CONTINGENT ASSETS AND LIABILITIES

(a) Contingent compensation receivable

HKAS 37.89

In September 2017, the company commenced litigation against a supplier for non-performance of a contract. According to legal advice it is probable that the company will win the case, in which case, the monetary compensation is expected to amount to approximately $3 million. No asset is recognised in respect of this claim.

(b) Contingent liability in respect of legal claim

HKAS 37.86

In June 2017, a subsidiary of the group received notice that it is being sued by a former employee in respect of a personal injury purported to have been suffered during his employment with that company. If the company is found to be liable, the total expected monetary compensation may amount to approximately $10 million[65 on page 38]. Under the subsidiary's employer's liability insurance policy, it is probable that in such circumstances the subsidiary could recover approximately $2 million from the insurer. The subsidiary continues to deny any liability in respect of the injury and, based on legal advice, the directors do not believe it probable that the court will find against them. No provision has therefore been made in respect of this claim.

HKFRS 7.31 & 36(a)

(c) Financial guarantees issued

As at the end of the reporting period, the group has issued a single guarantee in respect of a loan made by a finance company to a director of the company (see note 23(a)).

Deferred income in respect of the single guarantee issued is disclosed in note 24.

HKAS 24.18

36 MATERIAL RELATED PARTY TRANSACTIONS[222,223]

(a) Key management personnel remuneration

HKAS 24.17

Remuneration for key management personnel of the group, including amounts paid to the company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:[224 on page 154]

	2017	2016
	$'000	$'000
Short-term employee benefits	**8,624**	7,755
Post-employment benefits	**853**	781
Equity compensation benefits	**485**	585
	9,962	9,121

Total remuneration is included in "staff costs" (see note 5(b)).

HKAS 24.18 - 24

[222] nature of the related party relationships as well as information about the transactions and outstanding balances, including commitments, necessary for an understanding of the potential effect of the relationship on the financial statements. Paragraph 18 of HKAS 24 specifies certain information that the disclosures should include as a minimum. This list includes the amount of the transactions, the outstanding balances and commitments and their terms and conditions, and provisions for doubtful debts. Pricing policies are not required to be disclosed and paragraph 23 of HKAS 24 warns that disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are only made if such terms can be substantiated.

The disclosures are generally made in amongst other notes (for example, loans to related parties are often disclosed in the notes relating to non-current financial assets) or in a separate note on related party transactions. As with all HKFRSs, HKAS 24's requirements apply where the effect would be material. Judgement is therefore required in deciding the extent to which transactions are disclosed and, if the transactions are disclosed, whether those disclosures are made individually or on an aggregated basis. Paragraph 19 of HKAS 24 specifies that the disclosures should be at least disaggregated by type of related party i.e. transactions with parents should be shown separately from transactions with associates or key management personnel, for example. Where applicable, listed issuers should also take care to follow the requirements of Chapter 14A of the MBLRs concerning approval and disclosure of connected transactions. See also footnote 225.

HKAS 24.25 - 27

[223] HKAS 24 provides relief to government-related entities from the general disclosure requirements for related party disclosures in respect of transactions with the government to which they are related or with parties related to the same government. If entities take advantage of this relief, they need to provide alternative disclosures as set out in paragraph 26 of HKAS 24. These alternative disclosures require entities to apply judgement to assess whether a transaction with these other government-related entities is individually or collectively significant enough to be disclosed in the financial statements and if so, whether the disclosure should be quantitative or qualitative. In applying judgement, the entities should consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction, such as whether it is significant in terms of size, carried out on non-market terms and/or outside normal day-to-day business operations. Government-related entities are not exempt from the general disclosure requirements in HKAS 24 so far as transactions with other related parties are concerned. For example, they are still required to disclose details of key management personnel compensation (see footnote 224). Please talk to your usual KPMG contact if you would like further guidance in this respect.

(b) Financing arrangements[222]

HKAS 24.18-20

	Notes	Amounts owed to the group by related parties		Amounts owed by the group to related parties		Related interest (expense)/ income	
		As at 31 December		As at 31 December		Year ended 31 December	
		2017	2016	**2017**	2016	**2017**	2016
		$'000	$'000	**$'000**	$'000	**$'000**	$'000
Loan from parent company	(i)	**-**	-	**4,500**	4,500	**-**	-
Loans from fellow subsidiaries	(i)	**-**	-	**4,700**	4,200	**-**	-
Loans from associates	(ii)	**-**	-	**2,665**	906	**(262)**	(89)
Loans to associates	(i), (iii)	**31,601**	21,596	**-**	-	**-**	-
Loans to members of key management personnel and entities controlled by members of key management personnel	(iii), (iv)	**320**	517			**29**	32

Notes:

(i) The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms. The loans owed to related parties are included in "Trade and other payables" (note 24) and the loans owed by related parties are included in "Other non-current financial assets" (note 17).

(ii) The loans from associates bear interest at a prime rate plus [●]% per annum, are unsecured and repayable on 31 December 2021. The loans are included in "Non-current interest-bearing borrowings" (note 25).

(iii) No provisions for bad or doubtful debts have been made in respect of these loans.

(iv) Further details of the loans and guarantees given on behalf of directors of the company are disclosed in note 23.

Details of new loans and loans repaid during the period are disclosed in the consolidated cash flow statement.

HKAS 24.17 224 HKAS 24 requires disclosure of key management personnel compensation in total and for each of (i) short-term employee benefits; (ii) post-employment benefits; (iii) other long-term benefits; (iv) termination benefits; and (v) share-based payments. HKAS 24 defines key management personnel as being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

For some entities all members of key management personnel will also be directors of that entity and therefore these requirements of HKAS 24 will usually be met by giving more details in respect of the amounts to be disclosed under section 383(1) of the CO (see note 7 to these illustrative financial statements).

However, where consolidated financial statements are prepared, the reporting entity is the group and therefore the disclosure of key management personnel compensation may need to be extended to include amounts payable to individuals who are not directors of the holding company but nevertheless should be regarded as part of the key management of the group, for example executive directors of major subsidiaries. These persons may, or may not, also be included in the disclosure of "highest paid employees" required by paragraph A16(25) of the Listing Rules (see note 8 to these illustrative financial statements) depending on the nature of their duties and the amount of their compensation package.

In January 2017, the group entered into a three year lease in respect of certain leasehold properties from a fellow subsidiary of the group for storage of electronic goods. The amount of rent charged under the lease was determined with reference to amounts charged by the fellow subsidiary to third parties. The amount of rental incurred in the year is $422,000 (2016: $nil). No amounts were outstanding as at 31 December 2017 (2016: $nil).

(d) Applicability of the Listing Rules relating to connected transactions

A16(8)(2) *[The related party transactions in respect of … and … above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section […] of the Directors' Report.] OR [The related party transactions in respect of … and … above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are* ***[****below the de minimis threshold under Rule 14A.76(1)****][****or describe other exemption applicable to the transactions****]*** *OR [None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.]*[225]

A16(8)(2) 225 In accordance with paragraph 8(2) of Appendix 16 to the MBLRs, where a listed issuer includes in its annual report particulars of a related party transaction or continuing related party transaction (as the case may be) in accordance with applicable accounting standards adopted for the preparation of its annual financial statements, it must specify whether or not the transaction falls under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the MBLRs. The listed issuer must also confirm whether or not it has complied with the disclosure requirements in accordance with Chapter 14A of the MBLRs. In this regard, it would be helpful to the readers to provide a cross reference to where in the Annual Report such disclosures have been made, where applicable. In addition, according to the response to question 23 in FAQ Series 20 "Rule requirements relating to notifiable transactions, connected transactions, mineral companies, issues of securities and corporate governance code" released by the Listing Division of the SEHK on 28 February 2013, when the related party transaction is a connected transaction but is exempt from the disclosure requirements of Chapter 14A of the MBLRs, the listed issuer should specify this fact and describe the exemption applicable to the transaction.

Sch 4, Part 1, Section 2(1)(a)

37 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION[226]

Reference		2017	2017	2016	2016
HKAS 1.113, HKAS 1.51(e)		**$'000**	**$'000**	$'000	$'000
HKAS 1.60 & 66	**Non-current assets**				
HKAS 1.54(a)	Property, plant and equipment		**36,138**		27,426
	Investments in subsidiaries		**41,497**		41,497
HKAS 28.38	Interest in associates		**1,393**		1,393
	Interest in joint venture		**1,505**		1,505
HKAS 1.54(d)	Other financial assets		**31,726**		27,289
			112,259		99,110
HKAS 1.60 & 66	**Current assets**				
HKAS 1.54(d) HKFRS 7.8(a)(ii)	Trading securities	**58,331**		58,020	
HKAS 1.54(g)	Inventories	**50,368**		59,134	
HKAS 1.54(h) HKFRS 7.8(c)	Trade and other receivables	**261,816**		271,903	
HKAS 1.54(i)	Cash and cash equivalents	**55,185**		32,451	
		425,700		421,508	
HKAS 1.60 & 69	**Current liabilities**				
HKAS 1.54(k)	Trade and other payables	**78,185**		104,029	
HKAS 1.54(m) HKFRS 7.8(f)	Bank loans	**19,441**		17,208	
HKAS 1.54(m)	Obligations under finance leases	**1,210**		987	
HKAS 1.54(n)	Current taxation	**2,475**		2,440	
		101,311		124,664	
	Net current assets		**324,389**		296,844
	Total assets less current liabilities		**436,648**		395,954
HKAS 1.60 & 69	**Non-current liabilities**				
HKAS 1.54(m) HKFRS 7.8(f)	Interest-bearing borrowings	**32,119**		38,174	
HKAS 1.54(m) HKFRS 7.8(f)	Obligations under finance leases	**8,430**		7,547	
HKAS 1.54(o) & 56	Deferred tax liabilities	**3,103**		2,418	
			43,652		48,139
	NET ASSETS		**392,996**		347,815

Sch 4, Part 1, Section 2(1)(a), (3)

226 In accordance with Schedule 4 to the CO when a company prepares consolidated financial statements, a company-level statement of financial position is required to be disclosed as a note to the consolidated financial statements. Schedule 4 specifically requires that the company-level statement of financial position must be in the format in which that statement would have been prepared if the holding company had not been required to prepare any annual consolidated financial statements for the financial year. This means that the company should apply the general requirements of HKAS 1 to prepare the company-level statement of financial position as if the statement were presented as a primary statement.

HKAS 1.113-114

The CO is not explicit as to where in the notes the company-level statement of financial position should be placed. If the directors wish to draw attention to this statement and yet comply with a literal interpretation of Schedule 4, they would be advised to include the statement as note 1 or otherwise in a prominent position in the notes to the consolidated financial statements. In this illustration, the company-level statement of financial position is disclosed as a separate note at the end of the notes relating to the financial year (i.e. immediately before the note on non-adjusting events after the reporting period). However, the statement can be located in any place in the notes to the consolidated financial statements which is considered sensible, in accordance with HKAS 1's general principle that notes should be presented in a systematic manner.

			2017		2016	
			$'000	**$'000**	$'000	$'000
HKAS 1.54(r)	**CAPITAL AND RESERVES**	32(a)				
	Share capital			**181,400**		175,000
	Reserves			**211,596**		172,815
	TOTAL EQUITY			**392,996**		347,815

S387 Approved and authorised for issue by the board of directors on 28 March 2018.[227]

Hon WS Tan)
) Directors
SK Ho)

HKAS 10.19

38 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Subsequent to the end of the reporting period, one of the group's major trade debtors went into liquidation following a serious fire at their main production facilities in January 2018. Of the $1,150,000 owed by the debtor, the group expects to recover less than $100,000. No allowance for doubtful debts has been made in these financial statements in this regard.

(b) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 32(b).

HKAS 1.76(a) **(c)** After the end of the reporting period the group reached an agreement with its bankers to re-finance a loan of $10,000,000 originally due within 12 months of the end of the reporting period. The loan is now repayable in March 2020 and bears interest at [●]% per annum. No adjustments have been made to these financial statements as a result of this re-financing and therefore the loan is presented as a current liability as at the end of the reporting period.

[39 COMPARATIVE FIGURES[228]

HKAS 1.41 As a result of the application of [• • •] certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2017. Further details of these developments are disclosed in note 1(c).]

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statements". As confirmed by the Companies Registry in its response to Q15 of FAQ series on the CO (under the category "Accounts and Audit"), this requirement also applies to the company-level statement of financial position disclosed as a note to the consolidated financial statements. The statement must therefore be approved by the directors and signed on their behalf by 2 directors (or in the case of a company having only one director, by that director). The names of the directors who signed the statement of financial position on the directors' behalf should be stated.

The Companies Registry's FAQ series on the CO can be found in the Companies Registry's website at www.cr.gov.hk/en/companies_ordinance/faq_index.htm.

So far as non-Hong Kong incorporated issuers are concerned, as section 387 is not part of the SEHK's level playing field principle, they are not required to sign the company-level statement of financial position disclosed as a note to the consolidated financial statements, unless required by, for example, the Companies Law in their country of incorporation.

HKAS 1.41 228 When the presentation or classification of items in the financial statements is amended, paragraph 41 of HKAS 1 requires the comparative amounts to be reclassified unless it is impracticable to do so. It also requires the disclosure of the reason for and a description of the nature of material reclassifications as well as the amount of each item or class of items that is reclassified. Note also that where the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e. here: 1 January 2016), this would trigger the requirement to present an opening statement of financial position as per footnote 52 on page 32. It is not necessary to make a negative statement if no comparatives have been adjusted.

40 IMMEDIATE AND ULTIMATE CONTROLLING PARTY[229, 230]

Sch 4, Part 1, Section 3
HKAS 1.138(c)
HKAS 24.13

At 31 December 2017, the directors consider the immediate parent and ultimate controlling party of the group to be HK (Holding) Co. Ltd, which is incorporated in Hong Kong. This entity does not produce financial statements available for public use.

HKAS 24.13
24.16

[229] party. The ultimate controlling party may be a body corporate, or could be an unincorporated entity or an individual. If neither the immediate parent nor the ultimate controlling party produces financial statements available for public use, HKAS 24 requires the name of the next most senior parent that does so to be disclosed. The standard does not require a negative statement to be given if there are no such entities. However, users may find such a statement informative.

Sch 4, Part 1, Section 3

[230] Part 1 of Schedule 4 to the CO requires disclosure of the name of the "ultimate parent undertaking", i.e., the most senior parent of the reporting entity. This entity could be a body corporate, a partnership or an unincorporated association carrying on a trade or business, whether for profit or not, in accordance with the definition of "undertaking" in Schedule 1 to the CO. If the ultimate parent undertaking is a body corporate, then the country of its incorporation should be disclosed, whereas if it is not a body corporate, then the address of its principal place of business should be disclosed.

Although the disclosure requirements under Part 1 of Schedule 4 to the CO and paragraph 13 of HKAS 24 (see previous note) are similar, it should be noted that where the ultimate parent undertaking is controlled by an individual, additional disclosure will be required to meet both the requirements of the CO (in respect of disclosure of the "ultimate parent undertaking") and HKAS 24 (in respect of disclosure of the "ultimate controlling party").

HKAS 8.30

41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017[231]

Up to the date of issue of these financial statements[232], the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22, *Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the

HKAS 8.30-31

231 Paragraph 30 of HKAS 8 requires entities to disclose known or reasonably estimable information relevant to assessing the possible impact that application of a new Standard or Interpretation will have on the entity's financial statements in the period of initial application. Paragraph 31 of HKAS 8 lists certain items in this respect which an entity "considers disclosing". These items are:

- the Standard or Interpretation's title;
- the nature of the impending change and its effective date;
- the date at which it plans to apply the HKFRS initially; and
- either a discussion of the impact that initial application is expected to have on the entity's financial statements or, if that impact is not known or reasonably estimable, a statement to that effect.

It is evident from the words "relevant to assessing" and "considers disclosing" in these paragraphs, that management has a certain degree of flexibility in determining how much disclosure is necessary in the circumstances of the entity as regards naming the amendments, new Standards or Interpretations that are currently in issue but not yet adopted, and, if they do name any or all of the amendments, how much information is disclosed about the possible impact.

There is no "one-size-fits-all" wording to meet this requirement. This is particularly the case when preparing the 2017 financial statements, when it is necessary to discuss the possible impact of HKFRSs 9, 15 and 16, each of which has widespread applicability to the vast majority of active companies. Care must therefore be taken to prepare disclosures which reflect that current state of the entity's own assessment and expectations about the impact of the new standards on the entity's own financial statements.

HKAS 8.30

232 Paragraph 30 of HKAS 8 does not explicitly state whether the cut-off for this disclosure should be the end of the financial reporting period or the date of approval of the financial statements. In our view, given the requirements in HKAS 10 to disclose non-adjusting events after the reporting period, the cut-off for the disclosure under paragraph 30 of HKAS 8 should be as near as practicable to the date of approval of the financial statements.

expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the group, and further impacts may be identified before the standards are initially applied in the group's interim financial report for the six months ended 30 June 2018. The group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.[233]

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.
- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9[234].

233 At the time when entities issue their 2017 financial statements, HKFRS 9 and HKFRS 15 will have already been in effect. Given this, we expect that by that time most entities will have completed the transition work or will be at an advanced stage in their implementation process, and should therefore be in a position to describe more precisely the possible impacts of the standards expected to be reported in the first financial reports published under the new standards, by disclosing both qualitative and quantitative information. This may also be the case for HKFRS 16 given the close proximity to the effective date of HKFRS 16.

If it is considered necessary, entities may use caveats in their HKAS 8.30 note disclosures to inform financial statements users of uncertainties that may result in changes to assessments of possible impacts.

In this illustration, we have provided example disclosures of the expected impacts based on HK Listco's assumed facts and circumstances. As with other illustrative disclosures in this Guide, care should be taken to tailor the disclosures to suit the entity's circumstances.

With respect to the group's financial assets currently classified as "available-for-sale", these are investments in equity securities for which the group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The group does not intend to elect this designation option for any of the investments held on 1 January 2018 and will instead recognise any fair value changes in respect of these investments in profit or loss as they arise. This will give rise to a change in accounting policy as currently the group recognises the fair value changes of available-for-sale equity investments in other comprehensive income until disposal or impairment, when gains or losses are recycled to profit or loss in accordance with the group's policies set out in notes 1(g) and 1(n). This change in policy will have no impact on the group's net assets and total comprehensive income, but will increase volatility in profit or loss. Upon the initial adoption of HKFRS 9, fair value gains of $1,569,000 related to the available-for-sale investments will be transferred from the fair value reserve to retained profits at 1 January 2018.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the group were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would increase by approximately [●]% as compared with that recognised under HKAS 39. As a consequence, an adjustment of approximately $[●] will be made to the opening balances of net assets and retained profits at 1 January 2018.

(c) Hedge accounting

HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. The group has assessed that its current hedge relationships will qualify as continuing hedges upon the adoption of HKFRS 9 and therefore it expects that the accounting for its hedging relationships will not be significantly impacted.

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234 If an entity holds its trade receivables within a more flexible business model, i.e. hold for both collection and sale, the criterion for classification at amortised cost will not be met and the entity will be required to measure such trade receivables at fair value through other comprehensive income under HKFRS 9. In that case, the following alternative wording may be used:

"The group holds trade receivables and uses them in a flexible management of short-term cash whereby it sometimes collects contractual cash flows and sometimes sells the receivables (through factoring arrangements). The group has assessed that these trade receivables will not qualify for classification at amortised cost under HKFRS 9 and will be classified as financial assets at FVTOCI. Based on past factoring arrangements, the selling price of the trade receivables is at an average of [●]% of the carrying amount. Therefore it is expected that upon the initial application of HKFRS 9 an adjustment of $[●] will be made to decrease the group's net assets and opening retained earnings at 1 January 2018."

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The group's revenue recognition policies are disclosed in note 1(z). Currently, revenue arising from construction contracts and the provision of services is recognised over time, whereas revenue from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from construction contracts. However, revenue recognition for sales of electronic products and sales of properties is expected to be affected as follows:

- Sales of electronic products: the group has identified that some of its contracts with customers may meet the HKFRS 15 criteria for recognising revenue over time. Specifically, those are made-to-order contracts with payment provisions for work completed to date. The group has assessed that it is likely that under the new standard transfer of control over the electronic products manufactured under those contracts will fall into category (c) and therefore revenue will need to be recognised over time as the products are manufactured. This will result in revenue, and some associated costs, for those contracts being recognised earlier as currently the group does not recognise revenue until the electronic products are delivered to the customers' premises.
- Sales of properties: currently the group's property development activities are carried out in Hong Kong only. Taking into account the contract terms, the group's business practice and the legal and regulatory environment of Hong Kong, the group has assessed that its property sales contracts will not meet the criteria for recognising revenue over time and therefore revenue from property sales will continue to be recognised at a point in time. Currently the group recognises revenue from property

sales upon the later of the signing of the sale and purchase agreement and the completion of the property development, which is taken to be the point in time when the risks and rewards of ownership of the property have been transferred to the customer. The group has assessed that under the transfer-of-control approach in the new standard revenue from property sales will generally be recognised when the legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. This may result in revenue being recognised later than at present.

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the group would only apply such a policy when payments are significantly deferred, which is currently not common in the group's arrangements with its customers. Currently, the group does not apply such a policy when payments are received in advance.

Advance payments are not common in the group's arrangements with its customers, with the exception of when residential properties are marketed by the group while the property is still under construction. In this situation, the group may offer customers a discount compared to the sales price payable, provided the customers agree to pay the balance of the purchase price early.

In assessing whether such advance payments schemes include a significant financing component, the group has considered the difference between the discounted price offered to those customers and the cash selling price, and the length of time between the payment date and the completion date of legal assignment (i.e. the date when the customers obtain control of the properties) based on the typical arrangements entered into with the customers.

Where such advance payment schemes include a significant financing component, the transaction price will need to be adjusted to separately account for this component. Such adjustment will result in interest expense being recognised to reflect the effect of the financing benefit obtained from the customers during the period between the payment date and the completion date of legal assignment, with a corresponding increase to revenue on sale of properties recognised when control of the completed property is transferred to the customer. However, the actual extent of impact of this new accounting policy will also depend on whether and by how much such interest expense can be capitalised as part of the cost of the properties under HKAS 23, *Borrowing costs*. If the interest expense is to be capitalised until the construction work is completed, then this new accounting policy will not have a material impact on the group's net profits during the construction period and gross profit from the sales of properties. The group is in the process of assessing the implication of the significant financing component identified from the property sales on its capitalisation policy.

(c) Sales with a right of return

Currently when the customers are allowed to return the group's products, the group estimates the level of expected returns and makes an adjustment against revenue and cost of sales.

The group has assessed that the adoption of HKFRS 15 will not materially affect how the group recognises revenue and cost of sales when the customers have a right of return. However, the new requirement to recognise separately a return asset for the products expected to be returned will impact the presentation in the consolidated statement of financial position as the group currently adjusts the carrying amounts of inventory for the expected returns, instead of recognising a separate asset.

The group plans to elect to use the cumulative effect transition method for the adoption of HKFRS 15 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. As allowed by HKFRS 15, the group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. Since the number of "open" contracts for sales of electronic products and properties at 31 December 2017 is limited, the group expects that the transition adjustment to be made upon the initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the group's financial results from 2018 onwards. *[Or give quantitative information to indicate the extent of possible impact, including the estimated amount of transition adjustment, if the information is available at the time when the 2017 financial statements are prepared].*

HKFRS 16, Leases

As disclosed in note 1(m), currently the group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 34(b), at 31 December 2017 the group's future minimum lease payments under non-cancellable operating leases amount to $9,300,000 and $9,640,000 for properties and other assets respectively, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment.

The group expects that the practical expedient regarding the lease definition will be most relevant to the group's procurement contract disclosed in note 2(a)(ii). Currently the group accounts for this procurement contract, which will expire in 2025, as a lease arrangement and classifies it as a finance lease. The group has preliminarily assessed that if it applies the definition of a lease under HKFRS 16 to this procurement contract, the contract would not meet the definition and would therefore be accounted for as a normal inventory purchase arrangement. The group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

[Disclose the impacts (if any) of other developments in accordance with HKAS 8.30-31].

Group properties

A16(23)(1) **1 Major properties under development**

Location	Intended use	Stage of completion	Expected date of completion	Site area (sq m)	Gross floor area (sq m)	Group's interest (%)
16 Main Avenue Tsim Sha Tsui Hong Kong	Commercial	Foundations completed	Dec 2018	1,955	27,881	100
100 Richard Street Tsim Sha Tsui Hong Kong	Commercial	80%	Apr 2018	4,093	41,223	100
201 Pink Road Tsueng Kwan O Hong Kong	Residential	70%	Aug 2018	917	25,340	100

A16(23)(1) **2 Major properties held for resale**

Location	Existing use	Gross floor area (sq m)	Group's interest (%)
Hope House 796-802 Green Road, Central, Hong Kong	Office	733	100
Wood Mansion 100 Black Hill Road, Tsueng Kwan O, Hong Kong	Residential	1,826	100

A16(23)(2) **3 Major properties held for investment**

Location	Existing use	Term of lease
Overseas Building 1112-1120 Millers Road, Happy Valley, Hong Kong	Commercial	Long
12/F Deville House 122 House Street, Central, Hong Kong	Office	Long
Level 2, Good Fortune Building, No. 383 Hu Nan Road Xuhui District, Shanghai, China	Residential	Medium

A16(19)

Five year summary

(Expressed in Hong Kong dollars)

	Note	2017	2016	2015	2014	2013
		$'M	$'M	$'M	$'M	$'M
Results						
Revenue		**1,084.9**	985.2	939.4	752.5	665.7
Profit from operations		**141.3**	117.6	113.8	98.2	76.6
Finance costs		**(16.5)**	(12.7)	(9.9)	(7.9)	(7.0)
Share of profits less losses of associates		**13.8**	12.6	10.9	1.4	-
Share of profits of joint venture		**10.7**	10.1	7.0	-	-
Profit before taxation		**149.3**	127.6	121.8	91.7	69.6
Taxation		**(24.5)**	(21.3)	(18.4)	(11.2)	(8.9)
Profit for the year		**124.8**	106.3	103.4	80.5	60.7
Attributable to:						
Equity shareholders of the company		**114.4**	96.2	95.3	75.5	57.7
Non-controlling interests		**10.4**	10.1	8.1	5.0	3.0
Profit for the year		**124.8**	106.3	103.4	80.5	60.7
Assets and liabilities						
Fixed assets		**260.9**	208.6	186.9	142.8	114.8
Intangible assets		**15.2**	14.4	13.5	-	-
Goodwill		**0.9**	1.1	1.1	2.2	2.8
Interest in associates		**40.3**	29.5	16.8	8.7	8.5
Interest in joint venture		**42.8**	32.1	22.0	-	-
Other financial assets		**60.9**	48.4	34.7	36.6	32.0
Deferred tax assets		**2.6**	3.5	3.5	4.5	-
Net current assets		**255.3**	256.8	269.6	285.7	272.5
Total assets less current liabilities		**678.9**	594.4	548.1	480.5	430.6
Deferred tax liabilities		**(19.2)**	(13.9)	(13.3)	(6.7)	(4.3)
Other non-current liabilities		**(99.3)**	(94.2)	(91.2)	(53.1)	(49.7)
NET ASSETS		**560.4**	486.3	443.6	420.7	376.6
Capital and reserves						
Share capital: nominal value	1	**-**	-	-	-	70.0
Other statutory capital reserves	1	**-**	-	-	-	65.0
Share capital and other statutory capital reserves	1	**181.4**	175.0	175.0	135.0	135.0
Other reserves		**296.7**	239.4	206.9	227.5	198.1
Total equity attributable to equity shareholders of the company		**478.1**	414.4	381.9	362.5	333.1
Non-controlling interests		**82.3**	71.9	61.7	58.2	43.5
TOTAL EQUITY		**560.4**	486.3	443.6	420.7	376.6
Earnings per share	2					
Basic		**$1.15**	$0.97	$0.93	$0.81	$0.61
Diluted		**$1.14**	$0.97	$0.93	-	-

Notes to the five year summary[235]*:*

1 *The term "share capital" includes share premium account and capital redemption reserve from the commencement date of the Hong Kong Companies Ordinance (Cap. 622) of 3 March 2014. Prior to that date the share premium account and capital redemption reserve are presented separately in accordance with the predecessor Hong Kong Companies Ordinance (Cap. 32).*

2 *As a result of the sub-division of ordinary shares and bonus issue in 2014 and 2017 respectively, figures for the years from 2013 to 2016 have been adjusted for comparison purposes.*

A16(19) [235] Where the published results and statement of assets and liabilities have not been prepared on a consistent basis, the inconsistency should be explained in the summary.

Appendix A

Index of policies illustrated in note 1 to the illustrative annual financial statements

Appendix B
Recent HKFRS developments

This appendix lists the new Standards, amendments to, and Interpretations of, HKFRSs in issue as at 26 September 2017 which were not yet effective for the periods beginning on or after 1 January 2016 and therefore may need to be considered for the first time in the preparation of the 2017 financial statements. The appendix contains two tables:

- Table B1 lists recent HKFRS developments which are required to be adopted in annual accounting periods beginning on or after 1 January 2017
- Table B2 lists those developments which are available for early adoption in that period, but are not yet mandatory.

The appendix includes a brief overview of these new developments, focusing particularly on those which are likely to be of interest or concern. All of these developments are as a direct consequence of amendments and revisions to IFRSs made by the IASB and adopted by the HKICPA word-for-word and with the same effective dates. More information on these developments can be obtained from your usual KPMG contact.

** all of the effective dates given below refer to the start of an annual accounting period, unless otherwise noted. For example, the amendments to HKAS 12 in respect of recognition of deferred tax assets for unrealised losses are mandatory in respect of all annual periods which began on or after 1 January 2017.*

Effective date*	**Table B1: Amendments to HKFRSs first effective for annual periods beginning 1 January 2017**	
1 Jan 2017	Amendments to HKAS 7, *Statement of cash flows* "Disclosure initiative"	The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.
1 Jan 2017	Amendments to HKAS 12, *Income taxes* "Recognition of deferred tax assets for unrealised losses"	The amendments stemmed from a request to clarify the requirements on recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value. However, the amendments address a broader area of accounting for deferred tax assets in general. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also provide guidance on how an entity should determine future taxable profits to support the recognition of a deferred tax asset arising from a deductible temporary difference.
1 Jan 2017	Annual Improvements to HKFRSs 2014-2016 Cycle - Amendments to HKFRS 12, *Disclosure of interests in other entities*	This cycle of annual improvements contains amendments to three standards, namely HKFRS 1, HKFRS 12 and HKAS 28. The amendments to HKFRS 1 and HKAS 28 are discussed in Table B2 of this Appendix. The amendments to HKFRS 12 clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

[End of Table B1]

Effective date*	**Table B2:** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2017 but may be adopted early**	
1 Jan 2018	HKFRS 9 "Financial instruments"	The source of HKFRS 9, IFRS 9 is the result of a project undertaken by the IASB to reduce the complexity of the accounting for financial instruments and replace IAS 39, *Financial instruments: recognition and measurement*. *Classification and measurement of financial assets and financial liabilities* HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss (FVTPL) and (3) fair value through other comprehensive income (FVTOCI) as follows: • The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss. • For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling. The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's own credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). *Impairment* The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure expected credit losses as either 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. *Hedge accounting* HKFRS 9 does not fundamentally change the requirements relating to measuring and recognising ineffectiveness under HKAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting. *Effective date and transitional provisions* HKFRS 9 is effective for annual periods beginning on or after 1 January 2018, and will be applied retrospectively with some exemptions. Early application is permitted. Entities are allowed, as an accounting policy choice, to continue to apply the existing hedge accounting requirements in HKAS 39 or the hedge accounting requirements in HKFRS 9. This choice is given because the IASB has not completed its project on the accounting for macro hedging, which is dealt with separately from IFRS 9 project.

Effective date*	**Table B2 (continued):** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2017 but may be adopted early**	
1 Jan 2018	HKFRS 15 "Revenue from contracts with customers"	The source of HKFRS 15, IFRS 15 is the result of a joint project between the IASB and FASB. It is converged with FASB ASC Topic 606 and replaces existing IFRS and US GAAP guidance on revenue recognition. HKFRS 15 was first issued in July 2014 and further clarifications were issued in June 2016. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows: 1. Identify the contract with the customer 2. Identify the performance obligations in the contract 3. Determine the transaction price 4. Allocate the transaction price to the performance obligations 5. Recognise revenue when (or as) the entity satisfies a performance obligation HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Some of these apply to interim financial reports prepared under HKAS 34 as well as to annual financial statements. An entity may adopt HKFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

1 Jan 2018	Amendments to HKFRS 2, *Share-based payment*
	"Classification and measurement of share-based payment transactions"
		The amendments clarify the accounting for the following classification and measurement issues under HKFRS 2:
		• Measurement of cash-settled share-based payments
		The amendments clarify that the fair value of liabilities for cash-settled share-based payments should be measured using the same approach as for equity-settled share-based payments – i.e. using the modified grant date method. Therefore, in measuring the liability:
		  • market and non-vesting conditions are taken into account in measuring its fair value; and
		  • the number of awards to receive cash is adjusted to reflect the best estimate of those expected to vest as a result of satisfying service and any non-market performance conditions.
		• Classification of share-based payments settled net of tax withholdings
		The amendments introduce an exception so that a share-based payment transaction with net settlement feature for withholding an amount to cover the employee's tax obligations is classified as equity-settled in its entirety when certain conditions are met, even though the entity is then required to transfer cash (or other assets) to the tax authority to settle the employee's tax obligation.
		
		(continued)

Effective date*	**Table B2 (continued):** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2017 but may be adopted early**	
1 Jan 2018	Amendments to HKFRS 2, *Share-based payment* "Classification and measurement of share-based payment transactions" *(continued)*	• Accounting for a modification of a share-based payment from cash-settled to equity-settled The amendments clarify that on such a modification the liability for the original cash-settled share-based payment is derecognised and the equity-settled share-based payment is measured at its fair value and recognised to the extent that the goods or services have been received up to that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity at the modification date is recognised in profit or loss immediately.
Deferral approach: 1 Jan 2018 Overlay approach: Upon initial adoption of HKFRS 9	Amendments to HKFRS 4, *Insurance contracts* "Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts"	The amendments to IFRS 4, which were the source of the amendments to HKFRS 4, were issued by the IASB to address concerns arising from the different effective dates of IFRS 9 and the new insurance contracts standard, IFRS 17. The amendments introduce the following two approaches: • Deferral approach – Temporary exemption from HKFRS 9 Companies whose activities are predominantly connected with insurance may choose to defer the application of HKFRS 9 until 2021 (the effective date of IFRS 17). • Overlay approach All companies that issue insurance contracts may choose to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when HKFRS 9 is applied before the new insurance contracts standard is applied. *(Note: As further discussed below, IFRS 17 was issued by the IASB on 18 May 2017. We anticipate that the HKICPA will soon issue an equivalent standard with the same effective date.)*
1 Jan 2018	Amendments to HKAS 40, *Investment property* "Transfers of investment property"	The amendments provide guidance on deciding when there is a change in use to transfer a property to or from investment property. The amendments clarify that a change in use occurs when the property meets or ceases to meet the definition of investment property and there is evidence of the change in use. The amendments also re-characterise the list of evidence provided in the standard as a non-exhaustive list of examples i.e. other forms of evidence may support a transfer.
1 Jan 2018	HK(IFRIC) 22, "Foreign currency transactions and advance consideration"	The Interpretation provides guidance on how to determine "the date of the transaction" when applying HKAS 21, *The effects of changes in foreign exchange rates* to situations where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The Interpretation clarifies that "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity should determine the date of the transaction for each payment or receipt.

Effective date*	**Table B2 (continued):** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2017 but may be adopted early**	
1 Jan 2018	Annual Improvements to HKFRSs 2014-2016 Cycle - Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards* - Amendments to HKAS 28, *Investments in associates and joint ventures*	This cycle of annual improvements contains amendments to three standards, namely HKFRS 1, HKFRS 12 and HKAS 28. The amendments to HKFRS 12 are discussed in Table B1 of this Appendix. The amendments to HKFRS 1 delete the short-term exemptions for first-time adopters that are already out-of-date. The amendments to HKAS 28 clarify that: • a venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint ventures at fair value through profit or loss on an investment-by-investment basis; and • a non-investment entity investor may elect to retain the fair value accounting applied by its investment entity associate or joint venture and this election can be made separately for each investment entity associate or joint venture.
1 Jan 2019	HKFRS 16 "Leases"	In May 2016, the HKICPA issued HKFRS 16, *Leases*, which is equivalent to IFRS 16 issued by the IASB with the same effective date and transitional provisions. Once effective, the current accounting standard and interpretations on lease accounting (i.e. HKAS 17, HK(IFRIC)-Int 4, HK(SIC)-Int 15 and HK(SIC)-Int 27) will be superseded. The key objective of the new standard is to ensure that lessees recognise assets and liabilities arising from the commitments in the lease arrangements they have entered into. Therefore under HKFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability. The ROU asset represents the lessee's right to use the underlying asset for the lease term while lease liability represents its obligation to make lease payments. This on-balance sheet accounting model is similar to current finance lease accounting. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets. When the practical expedient is applied, the lessee will recognise the lease payments as an expense on either a straight-line basis over the lease term or another systemic basis. Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. HKFRS 16 also introduces changes or new requirements to other areas of lease accounting, including lease definition, modification of a lease, sale and leaseback transactions, sublease and disclosures. *Effective date and transitional provisions* HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted for entities that apply HKFRS 15 at or before the date of initial application of HKFRS 16. A lessee may adopt HKFRS 16 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Except for intermediate lessors in subleases, a lessor is not required to make any adjustments on transition and should apply HKFRS 16 from the date of initial application.

Effective date*	**Table B2 (continued): Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2017 but may be adopted early**	
1 Jan 2019	HK(IFRIC) 23, "Uncertainty over income tax treatments"	This Interpretation provides guidance on how to apply HKAS 12, *Income taxes* when there is uncertainty over whether a tax treatment will be accepted by the tax authority. Under the Interpretation, the key test is whether it is probable that the tax authority will accept the entity's tax treatment. If it is probable, then the entity should measure current and deferred tax consistently with the tax treatment in its tax return. If it is not probable, then the entity should reflect the effect of uncertainty in its accounting for income tax by using the "expected value" approach or the "the most likely amount" approach – whichever better predicts the resolution of the uncertainty and in that case the tax amounts in the financial statements will not be the same as the amounts in the tax return.
1 Jan 2021	IFRS 17 "Insurance contracts"	This Standard was issued by IASB on 18 May 2017. Once effective, the current insurance contracts standard IFRS 4 will be superseded. We anticipate that the HKICPA will soon issue equivalent standard with the same effective date. IFRS 4 was brought in as an interim standard in 2004 and is largely based on grandfathering previous local accounting policies, which therefore results in a lack of comparability. IFRS 17 is issued to resolve the comparison problems created by IFRS 4 by setting out a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts. Early application is permitted, provided that the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.
To be determined	Amendments to HKFRS 10, *Consolidated financial statements* and HKAS 28, *Investments in associates and joint ventures* "Sale or contribution of assets between an investor and its associate or joint venture"	The amendments introduce new requirements on loss of control over assets in a transaction with an associate or joint venture. These requirements require the full gain to be recognised when the assets transferred meet the definition of a "business" under HKFRS 3, *Business combination.* The amendments as originally issued had an effective date of annual periods beginning on or after 1 January 2016. In December 2015, the IASB decided to remove the effective date of the equivalent amendments to IFRS 10 and IAS 28 and indicated that the effective date will be determined when its research project on equity accounting is completed. The HKICPA followed the IASB's decision and indefinitely deferred the effective date of the amendments to HKFRS 10 and HKAS 28 accordingly.

Appendix C
HKFRSs in issue at 26 September 2017

This appendix lists all the Standards in issue at 26 September 2017 in numerical order, with cross-references to any related Interpretations.

In the tables below "*" and "#" have the following meanings:

- "*" indicates that the Standard (or an amendment to it) is first effective for annual periods beginning 1 January 2017. Table B1 of Appendix B contains further details of these recent amendments or new Standards.
- "#" indicates that the Standard (or an amendment to it) is not yet mandatory in annual periods beginning 1 January 2017, but is available for early adoption. Table B2 of Appendix B contains further details of these recent amendments or new Standards.
- "AIP14-16" indicates that the Standard is amended by the "Annual Improvements to HKFRSs 2014-2016 Cycle" omnibus standard. Except for the amendments to HKFRS 12 which are effective for annual periods beginning 1 January 2017, amendments included in this omnibus standard are effective for annual periods beginning 1 January 2018 (see Appendix B for further details).

Table C:

HKFRSs and HKASs in issue at 26 September 2017		***Related Interpretations***	
HKFRS 1 AIP14-16	First-time adoption of Hong Kong Financial Reporting Standards	*HK(IFRIC) 9*	*Reassessment of embedded derivatives*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 18	*Transfers of assets from customers*
HKFRS 2	Share-based payment	*Nil*	
Amendments to HKFRS 2#	Classification and measurement of share-based payment transactions		
HKFRS 3	Business combinations	*HK(IFRIC) 9*	*Reassessment of embedded derivatives*
		HK(IFRIC) 17	*Distributions of non-cash assets to owners*
HKFRS 4	Insurance contracts	*Nil*	
Amendments to HKFRS 4#	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts		
HKFRS 5	Non-current assets held for sale and discontinued operations	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKFRS 6	Exploration for and evaluation of mineral resources	*Nil*	
HKFRS 7	Financial instruments: Disclosures	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 17	*Distributions of non-cash assets to owners*
		HK(INT) 5	*Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause*
HKFRS 8	Operating segments	*Nil*	

Table C (continued):

HKFRSs and HKASs in issue at 26 September 2017		***Related Interpretations***	
HKFRS 9#	Financial instruments	*HK(IFRIC) 2*	*Members' shares in co-operative entities and similar instruments*
		HK(IFRIC) 5	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 10	*Interim financial reporting and impairment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 19	*Extinguishing financial liabilities with equity instruments*
HKFRS 10	Consolidated financial statements	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
Amendments to HKFRS 10 and HKAS 28#	Sale or contribution of assets between an investor and its associate or joint venture	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKFRS 11	Joint arrangements	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
HKFRS 12 [AIP14-16]	Disclosure of interests in other entities	*Nil*	
HKFRS 13	Fair value measurement	*Nil*	
HKFRS 14	Regulatory deferral accounts	*Nil*	
HKFRS 15#	Revenue from contracts with customers	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(SIC) 27	*Evaluating the substance of transactions involving the legal form of a lease*
HKFRS 16#	Leases	*Nil*	
IFRS 17# (Note)	Insurance contracts	*Nil*	
(Note: IFRS 17 was issued by IASB on 18 May 2017. We expect that the HKICPA will soon issue equivalent standard.)			
HKAS 1	Presentation of financial statements	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 14	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
		HK(IFRIC) 15	*Agreements for the construction of real estate*
		HK(IFRIC) 17	*Distributions of non-cash assets to owners*
		HK(SIC) 27	*Evaluating the substance of transactions involving the legal form of a lease*
		HK(SIC) 29	*Disclosure – Service concession arrangements*
		HK(INT) 5	*Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause*
HKAS 2	Inventories	*HK(IFRIC) 20*	*Stripping costs in the production phase of a surface mine*
HKAS 7	Statement of cash flows	*Nil*	
Amendments to HKAS 7*	Disclosure initiative		

Table C (continued): HKFRSs and HKASs in issue at 26 September 2017		***Related Interpretations***	
HKAS 8	Accounting policies, changes in accounting estimates and errors	*Nil*	
HKAS 10	Events after the reporting period	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKAS 11	Construction contracts	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 15	*Agreements for the construction of real estate*
HKAS 12	Income taxes	*HK(IFRIC) 7*	*Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies*
Amendments to HKAS 12*	Recognition of deferred tax assets for unrealised losses	*HK(IFRIC) 23#*	*Uncertainty over income tax treatments*
		HK(SIC) 25	*Income taxes – Changes in the tax status of an enterprise or its shareholders*
HKAS 16	Property, plant and equipment	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 4	*Determining whether an arrangement contains a lease*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 18	*Transfers of assets from customers*
		HK(INT) 4	*Leases - Determination of the length of lease term in respect of Hong Kong land leases*
		HK(IFRIC) 20	*Stripping costs in the production phase of a surface mine*
HKAS 17	Leases	*HK(IFRIC) 4*	*Determining whether an arrangement contains a lease*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(SIC) 15	*Operating leases - Incentives*
		HK(SIC) 27	*Evaluating the substance of transactions involving the legal form of a lease*
		HK(INT) 4	*Leases - Determination of the length of lease term in respect of Hong Kong land leases*
HKAS 18	Revenue	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 13	*Customer loyalty programmes*
		HK(IFRIC) 15	*Agreements for the construction of real estate*
		HK(IFRIC) 18	*Transfers of assets from customers*
		HK(SIC) 27	*Evaluating the substance of transactions involving the legal form of a lease*
		HK(SIC) 31	*Revenue - Barter transactions involving advertising services*
HKAS 19	Employee benefits	*HK(IFRIC) 14*	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*

Table C (continued): HKFRSs and HKASs in issue at 26 September 2017		*Related Interpretations*	
HKAS 20	Accounting for government grants and disclosure of government assistance	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 18	*Transfers of assets from customers*
		HK(SIC) 10	*Government assistance - No specific relation to operating activities*
HKAS 21	The effects of changes in foreign exchange rates	*HK(IFRIC) 16*	*Hedges of a net investment in a foreign operation*
		HK(IFRIC) 22#	*Foreign currency transactions and advance consideration*
HKAS 23	Borrowing costs	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 12	*Service concession arrangements*
HKAS 24	Related party disclosures	*Nil*	
HKAS 26	Accounting and reporting by retirement benefit plans	*Nil*	
HKAS 27	Separate financial statements	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 17	*Distributions of non-cash assets to owners*
HKAS 28 AIP14-16	Investments in associates and joint ventures	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
Amendments to HKFRS 10 and HKAS 28#	Sale or contribution of assets between an investor and its associate or joint venture	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKAS 29	Financial reporting in hyperinflationary economies	*HK(IFRIC) 7*	*Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies*
HKAS 32	Financial instruments: Presentation	*HK(IFRIC) 2*	*Members' shares in co-operative entities and similar instruments*
		HK(IFRIC) 12	*Service concession arrangements*
HKAS 33	Earnings per share	*Nil*	
HKAS 34	Interim financial reporting	*HK(IFRIC) 10*	*Interim financial reporting and impairment*
		HK(IFRIC) 21	*Levies*
HKAS 36	Impairment of assets	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 10	*Interim financial reporting and impairment*
		HK(IFRIC) 12	*Service concession arrangements*

Table C (continued): **HKFRSs and HKASs in issue at 26 September 2017**		***Related Interpretations***	
HKAS 37	Provisions, contingent liabilities and contingent assets	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 5	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 6	*Liabilities arising from participating in a specific market - Waste electrical and electronic equipment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 13	*Customer loyalty programmes*
		HK(IFRIC) 14	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
		HK(IFRIC) 15	*Agreements for the construction of real estate*
		HK(IFRIC) 21	*Levies*
HKAS 38	Intangible assets	*HK(IFRIC) 4*	*Determining whether an arrangement contains a lease*
		HK(SIC) 32	*Intangible assets - Web site costs*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 20	*Stripping costs in the production phase of a surface mine*
HKAS 39	Financial instruments: Recognition and measurement	*HK(IFRIC) 2*	*Members' shares in co-operative entities and similar instruments*
		HK(IFRIC) 5	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 9	*Reassessment of embedded derivatives*
		HK(IFRIC) 10	*Interim financial reporting and impairment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 16	*Hedges of a net investment in a foreign operation*
		HK(IFRIC) 19	*Extinguishing financial liabilities with equity instruments*
HKAS 40	Investment property	*Nil*	
Amendments to HKAS 40#	Transfers of investment property		
HKAS 41	Agriculture		

Appendix D
Exposure drafts in issue at 26 September 2017

Exposure drafts (EDs) are discussion documents issued for comment and are not mandatory. The proposals are an indication with respect to the detailed content of future accounting pronouncements, but they cannot be adopted early to the extent that they contradict existing requirements. Therefore, particular care should be taken if intending to follow any of the proposals or guidance in the EDs that propose changes to existing HKFRSs.

The HKICPA has adopted a practice of inviting comments on IASB EDs during the IASB consultation period, for the HKICPA to consider and pass on to the IASB as part of its submission. In such cases, the HKICPA has stated it will not issue a specific Hong Kong ED on the same subject unless any changes made by the IASB are so significant as to warrant, in the opinion of the HKICPA, seeking further comment. If the HKICPA does not consider it necessary to seek further comment it will generally adopt the Standard or Interpretation, once finalised by the IASB.

Exposure drafts	Expiry date of IASB comment period
EDs not yet finalised by IASB at 26 September 2017	
Exposure draft, *Accounting policies and accounting estimates (Proposed amendments to IAS 8)*	15 January 2018
Exposure draft, *Definition of Material (Proposed amendments to IAS 1 and IAS 8)*	15 January 2018
Exposure draft, *Property, plant and equipment – Proceeds before intended use (Proposed amendments to IAS 16)*	19 October 2017
Exposure draft, *Improvements to IFRS 8 Operating segments (Proposed amendments to IFRS 8 and IAS 34)*	31 July 2017
Exposure draft, *Prepayment features with negative compensation (Proposed amendments to IFRS 9)*	24 May 2017
Exposure draft, *Annual Improvements to IFRSs 2015-2017 Cycle*	12 April 2017
Exposure draft, *Definition of a business and accounting for previously held interests (Proposed amendments to IFRS 3 and IFRS 11)*	31 October 2016
Exposure draft, *IFRS Practice Statement: Application of materiality to financial statements*	26 February 2016
Exposure draft, *Conceptual framework for financial reporting*	26 October 2015
Exposure draft, *Remeasurement on a plan amendment, curtailment or settlement/Availability of a refund from a defined benefit plan (Proposed amendments to IAS 19 and IFRIC 14)*	19 October 2015
Exposure draft, *Classification of liabilities (Proposed amendments to IAS 1)*	10 June 2015

Appendix E
Requirements applicable to non-Hong Kong incorporated entities listed in Hong Kong

In general, overseas issuers incorporated in the common law jurisdictions of Bermuda and Cayman Islands may list on the Stock Exchange of Hong Kong Limited ("Exchange") and the Listing Rules apply as much to them as to Hong Kong issuers, subject to the additional requirements set out or referred to in Chapter 19 of the Main Board Listing Rules ("MBLRs") (or Chapter 24 of the GEM Listing Rules in the case of listing on GEM). PRC issuers (defined as "an issuer duly incorporated in the People's Republic of China as a joint stock limited company" in Chapter 19.A04 of the MBLRs) may also list on the Exchange and the Listing Rules apply as much to them as to Hong Kong issuers, subject to additional requirements, modifications and exceptions set out or referred to in Chapter 19A of the MBLRs (or Chapter 25 of the GEM Listing Rules in the case of listing on GEM).

This Appendix lists out areas where overseas/PRC incorporated entities listed on the Exchange should take particular care, so far as financial reporting is concerned, with a focus on the differences compared to Hong Kong incorporated issuers.

I. Auditor's report

This Guide includes an illustrative audit report on the financial statements of a Hong Kong incorporated issuer prepared under Hong Kong Standard on Auditing 700 (Revised) on pages 23 – 27. The differences between this report and the reports to be issued by auditors when the listed issuer is incorporated outside Hong Kong are summarised below. The full wording of the auditor's report applicable for PRC, Cayman Islands or Bermuda incorporated issuers is included at the end of this Appendix:

	Elements of auditor's report	**Hong Kong incorporated issuers**	**PRC or Cayman Islands incorporated issuers**	**Bermuda incorporated issuers**
1.	Place of incorporation	Although it is not a requirement in HKSA 700 or ISA 700, in Hong Kong it is common practice to disclose the place of incorporation of the company below the title and the addressee of the auditor's report.		
2.	Opinion	• The auditor's opinion is referenced to the applicable financial reporting framework and the Hong Kong Companies Ordinance. • The terms "financial position" and "financial performance" are specifically required to be used in the statement of the auditor's opinion by the Hong Kong Companies Ordinance.	• The auditor's opinion is referenced to the applicable financial reporting framework and the *disclosure requirements* of the Hong Kong Companies Ordinance. • Any terms used in the statement of the auditor's opinion should follow the company law of the country of incorporation. If there is no specific term required by the relevant company law, then the terms "financial position" and "financial performance" may be used to be in line with the Hong Kong market.	
3.	Responsibilities of the directors for the consolidated financial statements	The description of the directors' responsibilities is referenced to the applicable financial reporting framework and the Hong Kong Companies Ordinance.	The description of the directors' responsibilities is referenced to the applicable financial reporting framework and the *disclosure requirements* of the Hong Kong Companies Ordinance.	
4.	Auditor's responsibilities for the audit of the consolidated financial statements	The description of the auditor's responsibilities is referenced to section 405 of the Hong Kong Companies Ordinance.	The description of the auditor's responsibilities is not referenced to any ordinance or legislation.	The description of the auditor's responsibilities is referenced to Section 90 of the Bermuda Companies Act 1981.

II. Disclosures of financial information under the Listing Rules

Appendix 16 to the MBLRs and Chapter 18 of the GEM Listing Rules set out the minimum financial information that listed issuers should include in their financial reports, preliminary announcements, circulars etc. These apply equally to Hong Kong incorporated issuers and non-Hong Kong incorporated issuers. However, both Appendix 16 and Chapter 18 also contain disclosure requirements concerning annual reports which are applicable only to overseas issuers and PRC issuers. These are summarised below:

- overseas issuers or PRC issuers shall include a statement, where applicable, that no pre-emptive rights exist in the jurisdictions in which the listed issuers are incorporated or otherwise established (ref: A16.20);
- overseas issuers or PRC issuers shall include the information necessary to enable holders of their listed securities to obtain any relief from taxation to which they are entitled by reason of their holding of such securities (ref: A16.21 / GEM Rules 24.19 & 25. 31);
- for overseas issuers or PRC issuers, the statement of reserves available for distribution to shareholders required by paragraph 29 of Appendix 16 to the MBLRs or GEM Rule 18.37 should be calculated in accordance with any statutory provisions applicable in the issuer's place of incorporation or, in the absence of such provisions, with generally accepted accounting principles (ref: A16.29(2) / GEM Rules 24.21 & 25.33); and
- for PRC issuers, disclosures required by paragraphs 12-15 and 24 of Appendix 16 to the MBLRs relating to directors' biographical details, interests and short positions in shares, underlying shares and debentures, interests in transactions, arrangements or contracts, service contracts and emoluments also apply to the supervisors of the PRC issuers (similar requirements in GEM Rule 18.28).

III. Applicability of the Hong Kong Companies Ordinance

Paragraph 28 of Appendix 16 to the MBLRs specifically requires listed issuers, whether or not they are incorporated in Hong Kong, to include disclosures required under the following provisions of the Hong Kong Companies Ordinance (Cap. 622) and subsidiary legislation (similar requirements in GEM Rules 24.20 and 25.32):

In financial statements:

(a) Section 383 - Notes to financial statements to contain information on directors' emoluments etc

(b) Schedule 4 - Accounting Disclosures relating to

- Part 1(1) Aggregate amount of authorized loans
- Part 1(2) Statement of financial position to be contained in notes to annual consolidated financial statements
- Part 1(3) Subsidiary's financial statements must contain particulars of ultimate parent undertaking
- Part 2(1) Remuneration of auditor; and

(c) Companies (Disclosure of Information about Benefits of Directors) Regulation

In directors' report:

(a) Section 390 - Contents of directors' report: general#

(b) Section 470 - Permitted indemnity provision to be disclosed in directors' report

(c) Section 543 - Disclosure of management contract

(d) Schedule 5 - Content of Directors' Report: Business Review; and

(e) Companies (Directors' Report) Regulation

Section 390(3)(b) requires a company to disclose the names of the directors of its subsidiaries when the directors' report accompanies consolidated financial statements. However, this requirement has been explicitly excluded from the level playing field requirements in the MBLRs and therefore non-Hong Kong incorporated issuers are only required to disclose the names of directors of the holding company (Source: A16: Note 28.2)

As a result of the above, in the "Statement of compliance" note in the financial statements of non-Hong Kong incorporated issuers, the word "disclosure" is normally inserted before the words "requirements of the Hong Kong Companies Ordinance", in order to specify that the financial statements have complied with the disclosure aspects of the Hong Kong Companies Ordinance.

Example auditor's report for PRC or Cayman Islands incorporated issuers

Independent auditor's report to the shareholders of [*name of company*]

(Incorporated in the [People's Republic of China][Cayman Islands] with limited liability)

Opinion

We have audited the consolidated financial statements of [*name of company*] ("the company") and its subsidiaries ("the group") set out on pages .... to........, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">[Heading: name the specific key audit matter]</th></tr>
<tr><td colspan="2">Refer to notes [...] to the consolidated financial statements and the accounting policies on page [...].</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>[description]
We identified [name of specific key audit matter] as a key audit matter because […]</td><td>Our audit procedures to […] included the following:
• …</td></tr>
</table>

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is [*partner's name as appearing on his/her Practising Certificate*].

KPMG
Certified Public Accountants
8th Floor, Prince's Building
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Central, Hong Kong

28 March 2018

Example auditor's report for Bermuda incorporated issuers

Independent auditor's report to the shareholders of [*name of company*]

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of [*name of company*] ("the company") and its subsidiaries ("the group") set out on pages .... to........, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Heading: name the specific key audit matter*]	
Refer to notes [...] to the consolidated financial statements and the accounting policies on page [...].	
The Key Audit Matter	**How the matter was addressed in our audit**
[*description*] We identified [*name of specific key audit matter*] as a key audit matter because […]	Our audit procedures to […] included the following: • …

Information other than the consolidated financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
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We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is [*partner's name as appearing on his/her Practising Certificate*].

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28 March 2018

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