Illustrative Interim Financial Report Under Hong Kong Financial Reporting Standards

June 2018

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Abbreviations

Example of abbreviation used	Sources
CO	Hong Kong Companies Ordinance (Cap. 622)
S436	Section 436 of 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 34.C7	Paragraph 7 of Appendix C to Hong Kong Accounting Standard 34
HK (IFRIC)	HK (IFRIC) Interpretation
HK (SIC)	HK (SIC) Interpretation
HK (INT)	HK Interpretation
HKSRE	Hong Kong Standard on Review Engagements
HKSRE 2410.43(a)	Paragraph 43(a) of Hong Kong Standard on Review Engagements 2410
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(40)(1)	Paragraph 40(1) of Appendix 16 to 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 interim reports in accordance with the applicable disclosure provisions of the Main Board Listing Rules of the SEHK (MBLRs).

This guide includes:

- an illustrative interim financial report for the six months ended 30 June 2018 issued by a fictitious Main Board listed company, HK Listco Ltd ("HK Listco"), together with the independent auditor's review report; and

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

Recent financial reporting developments

The appendix to this guide sets out a complete list of recent developments in HKFRSs which were not yet effective for the 2017 calendar year-ends and therefore may need to be considered for the first time in the preparation of the 2018 interim financial report, including a brief overview of these new developments. The list is current as of 28 May 2018 and contains two tables:

- table 1 lists those amendments to HKFRSs which are required to be adopted in annual accounting periods beginning on or after 1 January 2018; and

- table 2 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 28 May 2018 there are no recent amendments to IFRSs which the HKICPA has yet to adopt.

HKFRS 9 amendments to HKFRS 7 and HKFRS 15

As can be seen from table 1, there are a number of new or revised HKFRSs which are first effective for annual periods beginning 1 January 2018. Among them, HKFRS 15, *Revenue from contracts with customers* and HKFRS 9, *Financial instruments* together with its consequential amendments to HKFRS 7, *Financial instruments: Disclosures* are likely to have an impact on a wide range of entities.

While HKFRS 15 and amended HKFRS 7 contain specific requirements on transitional disclosures and recurring disclosures, those disclosure requirements are not specifically applicable to condensed interim financial statements, except for the requirement to disclose disaggregated revenue. Therefore, entities need to apply judgement in deciding the extent of disclosures to be made to help readers understand the nature and the impact of the changes in accounting policies, and any significant events and transactions relating to revenue or financial instruments since the end of the last annual reporting period.

In this Guide, we assume that HK Listco has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS

15 in relation to timing of revenue recognition, capitalisation of contract costs, significant financing benefit obtained from customers and presentation of contract assets and contract liabilities. HK Listco has provided a detailed explanation of the changes of accounting policies with a summary of opening balance adjustments made upon the initial adoption of HKFRS 9 and HKFRS 15 (see Note 2). HK Listco has also updated the line items presented in the primary statements to be consistent with those expected to be disclosed in the 2018 annual financial statements.

HKFRS 16

HKFRS 16, *Leases* is effective for annual periods beginning on or after 1 January 2019. Note 20 to this Guide illustrates an update to the information provided in the 2017 annual financial statements about the expected impact of the adoption of HKFRS 16, including an updated disclosure about minimum lease payments based on the lease agreements that have been entered into by the interim reporting date.

As with other illustrative disclosures in this guide, care should be taken to tailor these disclosures to suit the entity's circumstances. The appropriate level of disclosures will depend on the extent of disclosures provided in the last annual financial statements and the progress made since then to prepare for the adoption of the new standard

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

30 June 2018

"Illustrative interim financial report" 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.

The illustrative interim financial report should not be used as a substitute for referring to the rules, standards and interpretations themselves, in part because a specific requirement may not be addressed in this illustration or there may be uncertainty regarding the correct interpretation of a rule or HKFRS. Also, the impact of any requirements that may result from current exposure drafts or other current projects of the SEHK, HKICPA, IASB or its interpretive body, IFRS Interpretations Committee, is not illustrated.

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.

Introduction

The following interim financial report is prepared in accordance with HKAS 34, *Interim financial reporting*, issued by the HKICPA. An "interim financial report" is defined in HKAS 34 as a financial report containing either a complete set of financial statements (as described in HKAS 1, *Presentation of financial statements*) or, as is illustrated here, a set of condensed financial statements (as described in HKAS 34) for an interim period together with selected explanatory notes. An interim period is a financial reporting period shorter than a full financial year.

The interim financial report is assumed to have been issued by a fictitious Main Board listed company, HK Listco Ltd ("HK Listco"), as a component of their interim report. HK Listco 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 is assumed to have been applying HKFRSs issued by the HKICPA in prior periods. As the company has a 31 December year end, the interim financial report illustrates the disclosure of the effects of the changes in accounting policies that have been made as a result of the new and revised HKFRSs which are first effective for annual reporting periods beginning on or after 1 January 2018, and for any interim period that is part of such an annual period. Further details of these changes and how they have been illustrated in HK Listco's interim financial report can be found in the Foreword to this guide.

As further discussed in the Foreword to this guide, to assist in the assessment of the effects of the new and revised standards, the appendix to this guide contains 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". For a checklist of disclosures required by HKAS/IAS 34, you may refer to the publication "Disclosure checklist: Interim financial reports" issued by our KPMG International Standards Group, available on KPMG China's website at www.kpmg.com/cn under "Insights/IFRS News/HK/IFRS Illustrative Disclosure/Guides to IFRS financial statements/Interim disclosure checklists".

Sources of disclosure requirements

The interim financial report illustrates the disclosure provisions of HKAS 34 and the Main Board Listing Rules (MBLRs), to the extent that the disclosures would appear in the interim financial report, rather than in information accompanying the interim financial report. Examples of such accompanying information include a separate statement containing management's discussion and analysis of the listed group's performance during the interim period and information relating to directors' securities transactions. The details of the MBLR disclosure requirements for interim reports can be found in paragraphs 37 to 44 of Appendix 16 to the MBLRs and Practice Note 5.

The format and wording of this interim financial 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 MBLRs and HKAS 34. Similarly, a company is free to disclose more than the minimum level of disclosure required by the SEHK and may, for example, include a complete set of financial statements as defined in HKAS 1 in its interim financial report.

Where the MBLRs and/or HKFRSs state that a specific item should be disclosed references to the relevant paragraphs are provided. For example, the reference "HKAS 34.8(a)" is given at the start of the statement of financial position as paragraph 8(a) of HKAS 34 specifies that such a statement should be included, as a minimum, in the interim financial report. We have also used "CP" to indicate disclosures that, while not required, are common practice or, in our view, are likely to be considered best practice.

Extent of disclosure required in a condensed interim financial report

The level of disclosure in a condensed interim financial report may vary considerably from one entity to the next and depends, to a large extent to the nature of the entity's operations and the level of detail provided in the annual financial statements. Even though an item illustrated in the following interim financial report may not be cross-referenced to a specific requirement, it may still be considered necessary disclosure for some entities, in accordance with the following catch-all requirements:

- HKAS 34.10 requires additional line items or notes to be included in the interim financial report, in addition to headings and subtotals provided in the most recent annual financial statements, if their omission would make the condensed interim financial statements misleading.

- HKAS 34.15 and HKAS 34.15C require entities to include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of entities since the end of the last annual reporting period. HKAS 34.15B provides a list of events and transactions for which disclosures would be required if they are significant, and specifies that this list is not exhaustive (paragraph 40(3) of Appendix 16 to the MBLRs also requires disclosure of any supplementary information which is necessary for a reasonable appreciation of the interim results).

- HKAS 34.16A(c) requires disclosure of the nature and amounts of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

On the other hand, HKAS 1.31 states that "an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material. This is the case even if the HKFRS contains a list of specific requirements or describes them as minimum requirements". HKAS 1.7 defines "material" and states that "omissions and misstatement of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements". It also states that "materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances." Therefore, whether an item is material enough to warrant disclosure is a judgement call which depends on the reporting entity's facts and circumstances.

In this regard, it should be noted that the fictitious monetary amounts included in this illustrative interim financial report are useful primarily for the purpose of tracking the relationship between different captions and between the primary statements and the notes. These numbers are not intended to illustrate the principle of materiality and therefore these numbers, in and of themselves, should not be taken as a guide to minimum levels of disclosure.

Compliance with IAS 34, *Interim financial reporting*

HKAS 34 is based very closely on IAS 34, including to the extent of identical paragraph numbering and wording. Therefore, compliance with HKAS 34 will generally ensure compliance with IAS 34 and this guide can be used as a useful reference source for Main Board issuers preparing their interim financial reports in accordance with IFRSs.

HK Listco Ltd

香港上市有限公司

(Stock code: • • • •)[1]

(formerly Model Electronics Company Limited)

2018

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for the six months ended 30 June 2018

LR13.51A

[1] 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 interim report, SEHK's Listing Division should be consulted.

Contents

HKAS 1.8, 10, 10A
HKAS 34.8(b)

[2] In this illustrative interim financial report, 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 and HKAS 34. 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.

A16(4) & (40)(1)

HKAS 34.10

[3] MBLRs do not specify the minimum information to be included in the primary statements. Therefore, a listed issuer is allowed to condense the interim statement of comprehensive income to the extent allowed by HKAS 34. However, entities are not prohibited from disclosing more than this minimum. In these illustrative interim financial statements, HK Listco chooses to present the same extent of information on the face of the consolidated statement of profit or loss as included in the annual financial statements.

HKAS 34.8A

[4] In accordance with paragraph 8A of HKAS 34, the presentation of comprehensive income under HKAS 1 should be consistent between the interim report and the annual financial statements. That is, if an entity presents total comprehensive income using a two statement approach (i.e. presents a separate statement of profit or loss (otherwise known as "income statement") and statement of profit or loss and other comprehensive income (otherwise known as "statement of comprehensive income")) in its annual financial statements in accordance with HKAS 1, it should also present such statements in its interim report.

HKAS 34.28

In addition, where an entity uses new policies or entered into new or significant transactions during the interim period, management should consider how they would reflect these in the statement of comprehensive income in a full set of financial statements and make adjustments to the interim statement of comprehensive income accordingly.

CP

[5] Each item on the face of the statement of profit or loss would generally be cross-referenced to any related information in the notes.

A16(43)

[6] Where the accounting information provided in an interim financial report has not been audited, that fact must be stated. If the accounting information contained in an interim report has been audited by the listed issuer's auditors, their report thereon including any qualifications shall be reproduced in full in the interim report.

HKFRS 15.C7
HKFRS 9.7.2.15

[7] In this illustration, HK Listco has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. It has elected to use the cumulative effect transition method for the application of HKFRS 15. It has also taken advantage of the exemption in paragraph 7.2.15 of HKFRS 9 from restating prior periods in respect of classification and measurement (including impairment). Hedge accounting requirements have been applied prospectively. Thus, comparative information is not restated.

When new standards are applied but comparative information has not been restated as a result of the transition methods chosen, although not explicitly required by HKFRS, it may be useful to highlight it to the user of financial statements.

If comparative information is restated, then in our view, labelling the comparatives as restated is necessary to highlight for users that the comparatives are not the same as the financial statements previously published.

HKAS 1.45, 85
HKAS 40.76(d)

[8] Neither HKAS 1 nor HKAS 40, *Investment property*, prescribe where movements in the fair value of investment properties 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 34.11A

[9] Paragraph 11A of HKAS 34 requires the basic and diluted earnings per share to be presented in the statement that presents the items of profit or loss for that interim period, i.e. the consolidated statement of profit or loss in the case of HK Listco.

HKAS 1.107, BC75

[10] 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 34.8(b), 8A, 10 & 20(b), A16(4)(1) & A16(40)(1)

Consolidated statement of profit or loss[2, 3, 4, 5] for the six months ended 30 June 2018 – unaudited[6]

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2018	2017 (Note)
		$'000	$'000
Revenue	3 & 4	542,448	492,620
Cost of sales	5 & 9	(404,254)	(366,788)
Gross profit		138,194	125,832
Valuation gains on investment property		11,490	4,260
Valuation losses on investment property		(2,360)	(1,000)
Net valuation gain on investment property[8]	8(c)	9,130	3,260
Other income[11]	5	8,404	7,081
Distribution costs		(25,281)	(23,514)
Administrative expenses		(39,531)	(37,088)
Other operating expenses[12]	8(b)	(8,247)	(6,781)
Profit from operations		82,669	68,790
Finance costs	5	(8,270)	(6,345)
Share of profits less losses of associates		2,250	1,322
Share of profits of joint venture		335	68
Profit before taxation	5	76,984	63,835
Income tax	6	(13,602)	(10,668)
Profit for the period		63,382	53,167
Attributable to:			
Equity shareholders of the company		58,174	48,083
Non-controlling interests		5,208	5,084
Profit for the period		63,382	53,167
Earnings per share[9] (HKAS 34.11 & 11A)	7		
Basic		$0.58	$0.48
Diluted		$0.58	$0.48

CP

Note: The group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2[7].

The notes on pages 25 to 66 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 13[10].

HKAS 1.82(a) [11] Paragraph 82(a) of HKAS 1 requires an entity to present interest revenue calculated using the effective interest method separately from other sources of revenue. In this illustration, HK Listco's interest income arises from bank deposits and loans to associates. As HK Listco does not consider such interest income as income arising from the course of its ordinary activities, it does not present interest income separately as "revenue". Instead, it includes interest income as part of "other income".

HKAS 1.82 [12] Paragraph 82 of HKAS 1 (as amended by HKFRS 9) requires the following line items to be presented as separate items on the face of the statement of profit or loss/the statement of profit or loss and other comprehensive income:

- impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with HKFRS 9;
- gains and losses arising from the derecognition of financial assets measured at amortised cost;
- if a financial asset is reclassified out of the amortised cost measurement category so that it is measured at fair value through profit or loss, any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value at the reclassification date;
- if a financial asset is reclassified out of the fair value through other comprehensive income measurement category so that it is measured at fair value through profit or loss, any cumulative gain or loss previously recognised in other comprehensive income that is reclassified to profit or loss.

HKAS 1.31 HK Listco includes impairment losses on trade and other receivables and contract assets as part of "other operating expenses" due to materiality consideration. This presentation is also considered to be consistent with HK Listco's policy to present expenses in profit or loss based on their function, rather than their nature. The other items have not been illustrated as they are expected to be less common.

CP

[13] Each item on the face of the statement of profit or loss and other comprehensive income would generally be cross-referenced to any related information in the notes.

HKAS 1.82A

[14] Entities are required to present the items of other comprehensive income that may be reclassified to profit or loss in the future (e.g. the effective portion of a cash flow hedge that is recognised in other comprehensive income) 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.

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

HKAS 1.92-94

- 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 120I, 127-130 of HKAS 19;
  - remeasurements of equity investments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of HKFRS 9;
- Items that may be reclassified subsequently to profit or loss:
  - gains 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 debt investments in accordance with paragraph 4.1.2A of HKFRS 9; 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 6.5.11(d) and 6.5.14 of HKFRS 9.

HKAS 34.10

HKAS 1 allows reclassification adjustments be presented either in the statement of profit or loss and other comprehensive income or in the notes. This presentation choice should be applied consistently between the interim financial statements and the annual financial statements. Consistent with the choice applied in its annual financial statements, in this illustrative interim financial report HK Listco presents other comprehensive income after reclassification adjustments on the face of the statement of profit or loss and other comprehensive income.

HKFRS 9.6.5.11(d)

HKFRS 9 clarifies that for (i) a hedged forecast transaction that subsequently results in the recognition of a non-financial asset or non-financial liability, or (ii) a hedged forecast transaction for a non-financial asset or non-financial liability that becomes a firm commitment for which fair value accounting is applied, the removal of an amount from the cash flow hedge reserve and including it in the initial carrying amount of the asset or liability (i.e. a basis adjustment) is not a reclassification adjustment under HKAS 1, and therefore does not impact other comprehensive income. In these illustrative financial statements, the basis adjustment is shown as a separate line item in the consolidated statement of changes in equity.

HKAS 1.90-91

[15] 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.

HKAS 34.10

Consistent with the choice applied in its annual financial statements, in this illustrative interim financial report HK Listco presents other comprehensive income net of tax on the face of the statement of profit or loss and other comprehensive income.

HKAS 34.8(b), 10 & 20(b)

Consolidated statement of profit or loss and other comprehensive income[2, 13] for the six months ended 30 June 2018 – unaudited[6]

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2018 $'000	Six months ended 30 June 2017 (i)[7] $'000
Profit for the period		63,382	53,167
Other comprehensive income[14] for the period (after tax[15] and reclassification adjustments[14]):			
Items that will not be reclassified to profit or loss[14]:			
Surplus on revaluation of land and buildings held for own use	8(c)	13,618	3,416
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)		25	-
		13,643	3,416
Items that may be reclassified subsequently to profit or loss[14]:			
Exchange differences on translation of:			
- financial statements of overseas subsidiaries		(1,765)	397
- related borrowings		247	(100)
		(1,518)	297
Cash flow hedge: net movement in hedging reserve		(142)	(132)
Available-for-sale securities: net movement in fair value reserve (recycling) (ii)		-	150
		(1,660)	315
Other comprehensive income for the period		11,983	3,731
Total comprehensive income for the period		75,365	56,898
Attributable to:			
Equity shareholders of the company		70,157	51,814
Non-controlling interests		5,208	5,084
Total comprehensive income for the period		75,365	56,898

CP

Notes:

(i) The group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2[7].

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See note 2(b).

The notes on pages 25 to 66 form part of this interim financial report.

HKAS 34.8(a), 10 & 20(a), A16(4)(2) & A16(40)(1)

Consolidated statement of financial position[16, 17, 18, 19, 20] at 30 June 2018 – unaudited[6]

(Expressed in Hong Kong dollars)

	Note	At 30 June 2018		At 31 December 2017 (Note)[7]	
		$'000	$'000	$'000	$'000
Non-current assets[22]					
Investment property	8		75,820		66,690
Other property, plant and equipment	8		144,997		131,497
Interests in leasehold land held for own use under an operating leases	8		10,217		10,385
			231,034		208,572
Intangible assets			16,560		14,400
Goodwill			1,100		1,100
Interest in associates			29,893		29,478
Interest in joint venture			32,430		32,095
Other financial assets			52,448		48,432
Deferred tax assets			3,017		3,495
			366,482		337,572
Current assets[22]					
Trading securities		58,176		58,020	
Inventories and other contract costs[20, 21]	9	253,389		223,682	
Contract assets[23, 24]		11,299		-	
Trade and other receivables[24]	10	69,044		78,079	
Cash and cash equivalents	11	73,783		105,089	
		465,691		464,870	
Current liabilities[22]					
Trade and other payables	12	149,142		150,356	
Contract liabilities [23]		8,585		-	
Bank loans and overdrafts		37,651		40,314	
Obligations under finance leases		1,099		987	
Current taxation		3,360		6,950	
Provisions		10,460		9,410	
		210,297		208,017	
Net current assets			255,394		256,853
Total assets less current liabilities			621,876		594,425
Non-current liabilities[22]					
Interest-bearing borrowings		70,621		72,251	
Obligations under finance leases		7,697		7,547	
Net defined benefit retirement obligation		3,540		3,210	
Deferred tax liabilities		16,655		13,889	
Provisions		11,695		11,251	
			110,208		108,148
NET ASSETS			511,668		486,277

		At 30 June 2018	At 31 December 2017 (Note)[7]
		$'000	$'000
CAPITAL AND RESERVES			
Share capital	13(b)	175,000	175,000
Reserves		259,612	239,426
Total equity attributable to equity shareholders of the company		434,612	414,426
Non-controlling interests		77,056	71,851
TOTAL EQUITY		511,668	486,277

CP

Note: The group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2[7].

The notes on pages 25 to 66 form part of this interim financial report.

HKAS 1.10

[16] 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 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.

A16(4)(2)

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. So far as interim financial statements are concerned, although they are not statutory financial statements and are therefore not required to follow the CO, it is generally expected that the titles of primary statements used in the interim financial statements are consistent with those used in the annual financial statements. We therefore recommend entities to use the title "statement of financial position" in the interim financial statements as well.

HKAS 34.10, A16(37), A16(40)(1)

[17] As mentioned in footnote 3, MBLRs do not specify the minimum information to be presented in the primary statements. Therefore listed issuers are allowed to condense the interim statement of financial position to an extent consistent with HKAS 34. However, entities are not prohibited from disclosing more than this minimum. For example, in the above statement of financial position, each component of assets, liabilities and equity that was presented in the previous annual statement of financial position has been included for ease of comparison with that statement of financial position.

Where the interim financial report is prepared using new policies or an entity entered into transactions which have resulted in new types of, or significant, balances at the end of the interim period, management should also consider how they would reflect these in a statement of financial position for a full set of financial statements and make adjustments to the interim statement of financial position accordingly.

HKAS 1.10(f)
HKAS 1.40A

[18] 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 annual financial statements, or when it reclassifies items in its annual financial statements and this 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, i.e. a complete set of annual financial statements will include three sets of statement of financial position information in such cases. However, as noted in the Basis for Conclusions to HKAS 1, such a requirement regarding comparative information is not extended to interim financial reports prepared in accordance with HKAS 34.

HKAS 1.BC33,
HKAS 34.20

CP

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

HKAS 1.29-30A, 55, 77

[20] Entities should apply judgement in determining whether the following items arising from HKFRS 15 should be presented separately (either in the statement of financial position or in the notes) or aggregated with another line item (and if so, then which line item):

- refund liability;
- right to recover a returned good;
- costs to obtain / fulfil a contract (contract costs);
- liability arising from repurchase agreement; and
- asset relating to the consideration paid to the customer.

In this illustration, it is assumed that HK Listco has capitalised contract costs and has decided that in its annual financial statements it will aggregate these costs with inventories to a single line item in the statement of financial position because of their similarities in nature (in both cases the assets represent costs which are expected to be recognised in future periods in the statement of profit and loss as expenses, as and when revenue from the sale of the related goods or services is recognised). Accordingly, this interim report has been presented in a manner consistent with this approach. On the other hand, it is assumed that HK Listco does not have any refund liabilities, return assets, liabilities arising from repurchase agreements or assets relating to consideration paid to the customers as these are expected to be less common.

HKAS 1.29, 60, 66

[21] HKFRS 15 requires entities to separately recognise contract costs as assets provided that the capitalisation criteria in paragraphs 91 or 95 of HKFRS 15 are met, but does not specify where such assets should be presented in the statement of financial position. Given this, the HKAS 1 principles should be followed in respect of the current/non-current distinction (HKAS 1.66) and materiality and aggregation (HKAS 1.29-31).

In this illustration HK Listco has presented the capitalised costs as current assets as HK Listco's capitalised costs relate to the sale of specific properties to be recognised during HK Listco's normal operating cycle and satisfy the criteria set out in HKAS 1.66 for classification as a current asset. As mentioned in footnote 20, HK Listco has decided it will aggregate the capitalised contract costs with inventories to a single line item in the statement of financial position in its annual financial statements. Therefore, this interim report has been presented in a manner consistent with this approach.

We would expect that in most cases the classification as a current asset will be appropriate, as in most cases the amounts will be charged to profit or loss during the entity's normal operating cycle. An exception to this approach may be when the amortisation period for the contract costs is an extended period which reflects the timing of goods or services to be transferred under a specific anticipated contract (for example services to be provided over some extended future period after renewal of an existing contract). In those cases, the contract costs may be closer in nature to intangible assets for customer relationships recognised in a business combination and therefore presentation as a non-current asset may be more appropriate, if the amortisation period is expected to extend beyond both 12 months and the entity's normal operating cycle. The classification as current or non-current may therefore in some cases be a judgment call that depends on the entity's facts and circumstances.

HKAS 1.60 & 64

[22] Under HKAS 1, presenting assets and liabilities on a liquidity basis is only acceptable when such a presentation provides information that is reliable and more relevant than a current / non-current presentation. A mixed presentation is acceptable when an entity has diverse operations.

HKFRS 15.105,109 HKAS 1.60, 66, 69

[23] HKFRS 15 does not specify whether entities are required to present their contract assets and contract liabilities as separate line items or how to classify them as current or non-current in the statement of financial position. Entities should therefore apply general principles in HKAS 1 for presenting and classifying contract assets and contract liabilities. Also, while HKFRS 15 uses the terms "contract assets" and "contract liabilities", entities are not prohibited from using alternative terms to describe contract assets and contract liabilities in their statements of financial position, provided that the entities give sufficient information to the users to distinguish these amounts from receivables and payables, as they are different in nature (see footnote 24 for distinction between contract assets and receivables).

In this illustration, it is assumed that HK Listco determines that contract assets and contract liabilities are individually sufficiently material and it therefore separately presents them in the statement of financial position. It is also assumed that HK Listco has decided to use the terms "contract assets" and "contract liabilities" in its annual financial statements. Therefore, these terms are used in this interim report for consistent presentation.

HKFRS 15.107-108

[24] HKFRS 15 makes a distinction between contract assets and receivables based on whether the right to the consideration for the performance completed up to date is unconditional or not. If the right to the consideration is unconditional, then this right should be presented as a receivable. A right to consideration is unconditional if only passage of time is required before payment of that consideration is due. This principle is illustrated in Examples 38 to 40 found in paragraphs IE197 to IE208 in the Illustrative Examples accompanying HKFRS 15. If the right to the consideration is conditional on something other than the passage of time e.g. an entity's future performance, then such right should be presented as a contract asset.

HKAS 34.8(c)

[25] Both the MBLRs and HKAS 34 are not explicit as to the extent of disclosure that should be made in the statement of changes in equity presented in an interim financial report. In particular, they are not explicit as to whether a reconciliation of all changes of each component of equity is required. In this illustrative interim financial report, the same level of detail is shown as that which is shown in the annual financial statements, for ease of comparison.

HKAS 34.28

Where the interim financial report is prepared using new policies or the entity entered into new or significant transactions during the interim period, management should also consider how they would reflect these in the statement of changes in equity in a full set of financial statements and make adjustments to the interim statement of changes in equity accordingly.

HKAS 1.54(q) & 106(a)

[26] As non-controlling interests in the equity of a subsidiary are presented as part of equity and not as a deduction from net assets, they should be included in the statement of changes in equity as one of the components of total equity.

CP

[27] Each item on the face of the statement of changes in equity would generally be cross-referenced to any related information in the notes.

HKAS 34.20(c)

[28] HKAS 34 requires the interim financial report to include a statement of changes in equity for the current financial year-to-date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. For example, in an interim financial report for the six months ended 30 June 2018, the comparatives in the statement of changes in equity should, at a minimum, cover the six month period ended 30 June 2017. However, we recommend that the reconciliation of the changes in each component of equity (whether it is provided in the statement of changes in equity or in the notes) should provide additional information about the movements in the second half of the comparative interim period, to help readers link the comparative changes in equity information, which is required for the comparative interim period (i.e. here the six months ended 30 June 2017) to the comparative statement of financial position, which is prepared as of the end of the previous financial year (i.e. here as at 31 December 2017). This is particularly useful where there have been changes in accounting policies which have resulted in adjustments.

In this illustration, HK Listco has recognised the cumulative effect of initial adoption of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity as at 1 January 2018 (see footnote 7). It has provided the movements in the second half of the comparative interim period (i.e. from 1 July 2017 to 31 December 2017), as well as the opening balance adjustments made at 1 January 2018, in order to help the users understand the impacts of the initial adoption of the standards.

HKAS 34.8(c), 10 & 20(c)

Consolidated statement of changes in equity[25, 26, 27] for the six months ended 30 June 2018 - unaudited[6]

(Expressed in Hong Kong dollars)

	Note	Share capital	Capital reserve	Exchange reserves	Property revaluation reserve	Hedging reserve	Fair value reserve (recycling)	Fair value reserve (non-recycling)	Retained profits	Total	Non-controlling interests	Total equity
		Attributable to equity shareholders of the company										
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2017		175,000	134	1,270	2,251	2,823	150	-	200,257	381,885	61,684	443,569
Changes in equity for the six months ended 30 June 2017:												
Profit for the period		-	-	-	-	-	-	-	48,083	48,083	5,084	53,167
Other comprehensive income		-	-	297	3,416	(132)	150	-	-	3,731	-	3,731
Total comprehensive income		-	-	297	3,416	(132)	150	-	48,083	51,814	5,084	56,898
Amounts transferred from hedging reserve to initial carrying amount of hedged items		-	-	-	-	(90)	-	-	-	(90)	-	(90)
Dividends approved in respect of the previous years	13(a)	-	-	-	-	-	-	-	(45,000)	(45,000)	-	(45,000)
Balance at 30 June 2017 and 1 July 2017		175,000	134	1,567	5,667	2,601	300	-	203,340	388,609	66,768	455,377
Changes in equity for the six months ended 31 December 2017[28]:												
Profit for the period		-	-	-	-	-	-	-	48,098	48,098	5,083	53,181
Other comprehensive income		-	-	281	2,896	(132)	150	-	(10)	3,185	-	3,185
Total comprehensive income		-	-	281	2,896	(132)	150	-	48,088	51,283	5,083	56,366
Amounts transferred from hedging reserve to initial carrying amount of hedged items		-	-	-	-	(91)	-	-	-	(91)	-	(91)
Equity settled share-based transactions	13(d)	-	1,625	-	-	-	-	-	-	1,625	-	1,625
Dividends declared in respect of the current year	13(a)	-	-	-	-	-	-	-	(27,000)	(27,000)	-	(27,000)
Balance at 31 December 2017 (Note)[7]		175,000	1,759	1,848	8,563	2,378	450	-	224,428	414,426	71,851	486,277

CP

Note: The group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2[7].

	Note	Share capital	Capital reserve	Exchange reserves	Property revaluation reserve	Hedging reserve	Fair value reserve (recycling)	Fair value reserve (non-recycling)	Retained profits	Total	Non-controlling interests	Total equity
		Attributable to equity shareholders of the company										
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 31 December 2017		175,000	1,759	1,848	8,563	2,378	450	-	224,428	414,426	71,851	486,277
Impact on initial application of HKFRS 15[28]	2	-	-	-	-	-	-	-	1,975	1,975	-	1,975
Impact on initial application of HKFRS 9[28]	2	-	-	-	-	-	(450)	135	(261)	(576)	(3)	(579)
Adjusted balance at 1 January 2018		175,000	1,759	1,848	8,563	2,378	-	135	226,142	415,825	71,848	487,673
Changes in equity for the six months ended 30 June 2018:												
Profit for the period		-	-	-	-	-	-	-	58,174	58,174	5,208	63,382
Other comprehensive income		-	-	(1,518)	13,618	(142)	-	25	-	11,983	-	11,983
Total comprehensive income		-	-	(1,518)	13,618	(142)	-	25	58,174	70,157	5,208	75,365
Amounts transferred from hedging reserve to initial carrying amount of hedged items		-	-	-	-	(98)	-	-	-	(98)	-	(98)
Dividends approved in respect of the previous year	13a)	-	-	-	-	-	-	-	(49,500)	(49,500)	-	(49,500)
Purchase of own shares	13(c)	-	-	-	-	-	-	-	(3,330)	(3,330)	-	(3,330)
Equity settled share-based transactions	13(d)	-	1,558	-	-	-	-	-	-	1,558	-	1,558
Balance at 30 June 2018		175,000	3,317	330	22,181	2,138	-	160	231,486	434,612	77,056	511,668

The notes on pages 25 to 66 form part of this interim financial report.

HKAS 34.8(d), 20(d),

Condensed consolidated cash flow statement[29, 30] for the six months ended 30 June 2018 – unaudited[6]

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2018	2017 (Note)[7]
		$'000	$'000
Operating activities			
Cash generated from operations		60,135	47,756
Tax paid		(14,927)	(12,650)
Net cash generated from operating activities		45,208	35,106
Investing activities			
Payment for the purchase of property, plant and equipment[29]		(6,816)	(6,353)
Other cash flows arising from investing activities		(5,024)	(5,567)
Net cash used in investing activities		(11,840)	(11,920)
Financing activities			
Dividends paid to equity shareholders of the company[29]		(49,500)	(45,000)
Other cash flows arising from financing activities		(12,128)	(6,590)
Net cash used in financing activities		(61,628)	(51,590)
Net decrease in cash and cash equivalents		(28,260)	(28,404)
Cash and cash equivalents at 1 January		102,299	122,650
Effect of foreign exchanges rates changes		(1,624)	763
Cash and cash equivalents at 30 June	11	72,415	95,009

CP

Note: The group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2[7].

The notes on pages 25 to 66 form part of this interim financial report.

HKAS 34.10

29 As mentioned in footnote 3, MBLRs do not specify the minimum information to be presented in the primary statements. Listed issuers are allowed to condense the interim cash flow statements to an extent consistent with HKAS 34. HKAS 34.10 requires that a condensed cash flow statement should include, at a minimum, each of the headings and subtotals that were included in the cash flow statement presented in an entity's most recent annual financial statements. HKAS 34.10 also goes further, by stating that "additional line items should be included if their omission would make the condensed interim financial statements misleading".

The above requirements still leave some uncertainty as to "how much is enough" when disclosing cash flow information. In this regard, the IFRS Interpretations Committee (IFRIC) published an agenda decision after its July 2014 meeting which discourages a three-line presentation showing only a total for each of operating, investing and financing cash flow activities. In the agenda decision IFRIC makes reference to the general requirements in paragraphs 15 and 25 of IAS 34 (the source of HKAS 34), which require interim reports to include explanations of significant events or transactions which are necessary to an understanding of the entity's financial position and performance during the interim period, as well as to the specific requirements of paragraph 10 quoted above. Taking all three paragraphs into account, IFRIC concluded that IAS 34 requires a condensed cash flow statement to include all information that is relevant in understanding the entity's ability to generate cash flows and the entity's needs to utilise those cash flows and that IFRIC did not expect that a three-line condensed cash flow statement showing only a total for each of operating, investing and financing cash flow activities would meet the requirements in IAS 34.

In view of this agenda decision, an entity should consider carefully whether it should present certain cash flow line items separately in its condensed cash flow statement, in addition to those headings and subtotals included in the most recent annual cash flow statement. This will require the exercise of judgment, depending on the issuer's facts and circumstances and an assessment of materiality based on the nature and size of the cash flow items. For example, significant cash flows that relate to transactions that occur irregularly, such as a business combination, a significant capital outlay on property, plant and equipment, or significant new sources of financing may warrant separate presentation within the categories of investing and financing activities respectively, with the balance of that sub-category of cash flows being described as "other", as has been illustrated above.

CP

30 Each item on the face of the cash flow statement would generally be cross-referenced to any related information in the notes.

HKAS 34.8(e)
A16(37): Note 37.2

Notes to the unaudited interim financial report[31,32]

(Expressed in Hong Kong dollars unless otherwise indicated)[33]

1 BASIS OF PREPARATION

CP

HKAS 34.19
A16(38)

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA)[34,]. It was authorised for issue on 25 August 2018[35].

HKAS 34.5-25 — 31 HKAS 34 presumes that the user of an entity's condensed interim financial report will also have access to its most recent annual financial statements. Therefore, in general the level of detail of disclosure in condensed interim financial reports is expected to be less than that in the annual financial statements, and it is not necessary for an interim financial report to duplicate information previously reported in the annual financial statements or to provide relatively insignificant updates to the information previously reported. In this regard, paragraphs 8 to 25 of HKAS 34 provide guidance on the minimum components of an interim financial report and selected explanatory notes.

Specifically paragraphs 10 and 15 of HKAS 34 require that the entity should consider whether there are additional line items or notes which should be included if their omission would make the condensed interim financial report misleading and whether there are any events or transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period and need to be disclosed. In this regard, paragraph 15B of HKAS 34 provides a list of events and transactions for which disclosures would be required if they are significant. As specified by paragraph 15B, this list is not exhaustive. There may be other instances where additional disclosures may be required. For example, in our view, where an entity's financial risk management objectives and policies and/or its financial risk exposures change significantly during the interim period, additional disclosures similar to those required by HKFRS 7 may need to be provided in the condensed interim financial report.

HKAS 34.16A — 32 If an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement (such as management commentary or risk report), then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. Otherwise, the interim financial report is incomplete.

In this illustration, HK Listco presents relevant required disclosures within the interim financial statements and does not incorporate information by cross-reference.

CP — 33 Generally, interim financial reports should be prepared using a consistent level of precision. That is, if the primary statements are presented in, for example, round thousands, 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 interim financial report using different levels of precision from that used generally. An example of such disclosure is in note 16 to this illustrative interim financial report where HK Listco discloses the estimated financial effect of a contingent liability in $millions due to the uncertainties involved in estimating the outcome. In such case, the level of precision used should be clearly disclosed and care should be taken to ensure that material information is not omitted.

HKAS 34.19, 7 & 9 — 34 If the interim financial report of an entity is in compliance with HKAS 34, that fact should be disclosed.

With the exception of this statement in respect of HKAS 34, an interim financial report should not be described as complying with HKFRSs unless it complies with all of the requirements of each applicable HKFRSs, i.e. only if the interim financial report includes a complete set of financial statements as described in HKAS 1 and includes all of the disclosures required by individual HKFRSs, in addition to the supplementary disclosures required by HKAS 34. An interim financial report that comprises condensed interim financial statements and selected explanatory notes would not satisfy this requirement.

CP — 35 As with annual financial statements, it is important for users to know when an interim financial report was authorised for issue, as the interim financial report does not reflect events after this date. Accordingly, although not mandatory, we recommend entities disclose such information.

HKAS 34.16A(a)
A16(38)

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2.

CP

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

CP

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

A16(43)
CP

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 67.

S436

The financial information relating to the financial year ended 31 December 2017 that is included in the interim financial report as comparative information does not constitute the company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622)[36] is as follows:

The company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

S436 [36] Section 436 of the CO requires specific disclosures to be made when a Hong Kong incorporated company circulates, publishes or issues "non-statutory accounts", or otherwise makes them available for public inspection. "Non-statutory accounts" has a broad meaning and refers to a company publishing any statement of financial position or statement of comprehensive income relating to, or purporting to deal with, a financial year of the company (otherwise than in the statutory financial statements). Interim financial reports prepared in accordance with HKAS 34 fall within the scope of these requirements because the comparative statement of financial position included in the interim financial report is prepared as of a financial year end (i.e. as at the end of the previous financial year).

The requirement in section 436 is to make a statement indicating –

(a) that those accounts are not specified financial statements* in relation to the company;
(b) whether the specified financial statements for the financial year with which those accounts purport to deal have been delivered to the Registrar of Companies;
(c) whether an auditor's report has been prepared on the specified financial statements for the financial year; and
(d) whether the auditor's report –
   (i) was qualified or otherwise modified;
   (ii) referred to any matter which the auditor drew attention by way of emphasis of matter without qualifying the report; or
   (iii) contained a statement under section 406(2) or 407(2) or (3).

* "Specified financial statements" is defined in section 436(6) and in effect refers to a company's annual audited financial statements prepared for the statutory purpose of reporting to its members. These are often referred to as "statutory financial statements".

Accounting Bulletin 6 (AB 6), issued by the HKICPA, provides guidance on the requirements of section 436, including providing illustrative examples of the statements to be attached to the non-statutory accounts.

These disclosure requirements are not applicable to non-Hong Kong incorporated companies.

2 CHANGES IN ACCOUNTING POLICIES[37, 38, 39]

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the group. Of these, the following developments are relevant to the group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation*[40] which have been adopted at the same time as HKFRS 9.

The group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to timing of revenue recognition, capitalisation of contract costs, significant financing benefit obtained from customers and presentation of contract assets and contract liabilities. Details of the changes in accounting policies are discussed in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15.

A16(37): Note 37.2

37 Note 37.2 to paragraph 37 of Appendix 16 to the MBLRs requires a listed issuer to apply the same accounting policies in its interim financial report as are applied in its most recent annual financial statements except where a change in accounting policy is required by an accounting standard which came into effect during the interim period. A literal interpretation of this requirement would appear to prevent a listed issuer from voluntarily changing its accounting policy during an interim period. However, it is our understanding that a listed issuer may voluntarily change its accounting policies as long as the policy change is in accordance with HKAS 8, *Accounting policies, changes in accounting estimates and errors*, and the change is to be reflected in the entity's next annual financial statements.

HKAS 34.16A A16(37): Note 37.2 & A16(38): Note 38.1

38 In accordance with paragraph 16A(a) of HKAS 34, and notes 37.2 and 38.1 to paragraphs 37-38 of Appendix 16 to the MBLRs, when entities change their accounting policies and methods of computation for their interim financial report, as compared to the most recent annual financial statements, they should describe the reason for the change and the nature and effect of such changes. Note 38.1 to paragraph 38 of Appendix 16 to the MBLRs also requires that where it is not possible to quantify the effects of the change or the effects are not significant, this should be stated.

In our view, when making these disclosures consideration should be given to the requirements found in paragraphs 28-29 of HKAS 8, which set out a list of specific information to be disclosed in a complete set of financial statements when an entity changes its accounting policies. However, HKAS 34 leaves management some discretion to decide the extent to which the disclosures in the condensed interim financial report should satisfy all of the requirements applicable to a complete set of financial statements and therefore a variety of methods and styles of presentation may be acceptable provided they comply with the MBLRs and HKAS 34. In addition, as confirmed in paragraph BC33 of HKAS 1, there is no specific requirement to include in the interim financial report additional statement of financial position information as at the start of the comparative period when comparatives have been restated (see footnote 52 of the December 2017 edition of Illustrative annual financial statements under Hong Kong Financial Reporting Standards for details of the requirements applicable to the annual financial statements in this regard).

In this illustration, HK Listco's accounting policies in respect of financial instruments and revenue have been changed as a result of applying HKFRS 9 and HKFRS 15 for the first time in this interim period. While HKFRS 7, *Financial instruments: Disclosures* (as amended by HKFRS 9) and HKFRS 15 contain specific transitional disclosures that are required in a full set of financial statements, those transitional disclosure requirements do not apply to condensed interim financial statements. Entities should apply judgement in determining whether some of the transitional disclosures required by HKFRS 7 and HKFRS 15, as well as the general disclosures required by HKAS 8, will be relevant to the understanding of changes in accounting policies in the interim period.

In this illustration, HK Listco has disclosed a detailed explanation of the changes in accounting policies and opening balance adjustments in note 2(b) for HKFRS 9 and note 2(c) for HKFRS 15. It has also included a table in note 2(a) to give a summary of the impacts of applying the two standards for the first time in this interim period.

[39] In this interim financial report, a range of changes, which have varying impacts on the group's financial statements and the interim financial report, was described. However, there may be other changes in accounting policies which an entity needs to disclose but which have not been illustrated here and/or the impact of the changes highlighted may vary from one entity to another, depending on their facts and circumstances. Care should be taken to tailor the disclosures to suit the entity's circumstances.

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 a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the group. Of these, the following developments are relevant to the group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*
- …

None of these developments has had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period [except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9]."

[40] The amendments to HKFRS 9, *Prepayment features with negative compensation*, issued by the HKICPA in November 2017, introduce narrow-scope changes to HKFRS 9. These amendments are a direct consequence of the identical amendments made to IFRS 9 by the IASB. Negative compensation arises when the party effecting the prepayment in effect receives a benefit from the other party (e.g. when the prepayment amount is based on the fair value of the loan at the date of prepayment which may be less than the amount that would have been repaid at maturity). The amendments require entities to measure financial assets with such a prepayment feature at amortised cost or at fair value through other comprehensive income (depending on the business model under which the financial assets are managed), if certain criteria are met. Under the current HKFRS 9 requirements, prepayment features with negative compensation would result in a financial asset being classified as at fair value through profit or loss.

The amendments are mandatory for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The amendments are required to be applied retrospectively. In order to avoid duplicating effort in classifying financial assets and updating accounting policies, HK Listco has decided to adopt the amendments at the same time with HKFRS 9, in which case the same transition provisions have been applied. If the amendments are not applied at the same time with HKFRS 9, specific transition provisions will apply when the amendments are mandatorily effective in 2019.

Under the transition methods chosen, the group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9 and/or HKFRS 15[38]:

	At 31 December 2017	Impact on initial application of HKFRS 9	Impact on initial application of HKFRS 15	At 1 January 2018
		(Note 2(b))	(Note 2(c))	
	$'000	$'000	$'000	$'000
Inventories and other contract costs	223,682	-	(5,609)	218,073
Contract assets	-	(132)	23,470	23,338
Trade and other receivables	78,079	(567)	(14,635)	62,877
Cash and cash equivalents	105,089	(1)	-	105,088
Total current assets	**464,870**	**(700)**	**3,226**	**467,396**
Contract liabilities	-	-	(7,173)	(7,173)
Trade and other payables	(150,356)	-	6,298	(144,058)
Current taxation	(6,950)	-	(294)	(7,244)
Total current liabilities	**(208,017)**	**-**	**(1,169)**	**(209,186)**
Net current assets	**256,853**	**(700)**	**2,057**	**258,210**
Total assets less current liabilities	**594,425**	**(700)**	**2,057**	**595,782**
Deferred tax liabilities	(13,889)	121	(82)	(13,850)
Total non-current liabilities	**(108,148)**	**121**	**(82)**	**(108,109)**
Net assets	**486,277**	**(579)**	**1,975**	**487,673**
Reserves	(239,426)	576	(1,975)	(240,825)
Total equity attributable to equity shareholders of the company	**(414,426)**	**576**	**(1,975)**	**(415,825)**
Non-controlling interests	(71,851)	3	-	(71,848)
Total equity	**(486,277)**	**579**	**(1,975)**	**(487,673)**

Further details of these changes are set out in sub-sections (b) and (c) of this note.

(b) HKFRS 9, *Financial instruments*, including the amendments to HKFRS 9, *Prepayment features with negative compensation*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.[41]

HKFRS 9.7.2.1

The group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018[42]. Therefore, comparative information continues to be reported under HKAS 39.

HKAS 34.15C

[41] HKFRS 9 amends HKFRS 7, *Financial instruments: Disclosures* to introduce extensive new and amended disclosure requirements on various areas, including credit risk and expected credit losses, reclassification of financial assets from one measurement category to another, designation of equity investments at fair value through other comprehensive income, designation of financial liabilities at fair value through profit or loss and hedge accounting. These new disclosure requirements have not been introduced to HKAS 34 and are therefore not specifically applicable to condensed interim financial statements. However, an entity should consider its own facts and circumstances and determine whether the disclosures are necessary for an understanding of the changes in financial position and performance since the end of the last annual reporting period.

HKFRS 9.7.2.15 & 7.2.17

[42] When an entity applies the classification and measurement (including impariment) requirements of HKFRS 9, paragraph 7.2.15 of HKFRS 9 allows an entity not to restate information relating to prior periods. An entity may restate prior periods if, and only if, it is possible without the use of hindsight.

Paragraph 7.2.15 of HKFRS 9 requires an entity to disclose information set out in paragraphs 42L to 42O of HKFRS 7 about the classification and measurement of financial assets when HKFRS 9 is first applied. Although this disclosure requirement does not appy to condensed interim financial statements, HK Listco has provided the disclosure in order to enable readers to understand the impact of the initial application of HKFRS 9.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	$'000
Retained earnings	
Transferred from fair value reserve (recycling) relating to financial assets now measured at FVPL	315
Recognition of additional expected credit losses on:	
- financial assets measured at amortised cost	(565)
- contract assets	(132)
Related tax	121
Net decrease in retained earnings at 1 January 2018	(261)
Fair value reserve (recycling)	
Transferred to retained earnings relating to financial assets now measured at FVPL	(315)
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI	(135)
Net decrease in fair value reserve (recycling) at 1 January 2018	(450)
Fair value reserve (non-recycling)	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI and increase in fair value reserve (non-recycling) at 1 January 2018	135
Non-controlling interests	
Recognition of additional expected credit losses on financial assets measured at amortised cost and decrease in non-controlling interests at 1 January 2018	(3)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

HKFRS 7.42I
HKFRS 7.42K-42O
HKFRS 9.7.2.15

The following table shows the original measurement categories for each class of the group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 $'000	Reclassification $'000	Remeasurement $'000	HKFRS 9 carrying amount at 1 January 2018 $'000
Financial assets carried at amortised cost				
Cash and cash equivalents	105,089	-	(1)	105,088
Trade and other receivables (note (i))	64,261	(6,372)	(567)	57,322
Loans to associates	21,596	-	-	21,596
	190,946	(6,372)	(568)	184,006
Financial assets measured at FVOCI (non-recyclable)				
Equity securities (note (ii))	-	4,950	-	4,950
Financial assets carried at FVPL				
Units in bond funds (note (iii))	-	15,176	-	15,176
Equity securities not held for trading (note (ii))	-	6,710	-	6,710
Trading securities (note (iv))	58,020	-	-	58,020
Other derivative assets (note (iv))	659	-	-	659
	58,679	21,886		80,565

Financial assets measured at fair value – hedging instruments				
Derivatives used for hedging	2,954	-	-	2,954
Financial assets classified as available-for-sale under HKAS 39 (notes (ii),(iii))	26,836	(26,836)	-	-

HKFRS 7.42J

Notes:

(i) Trade and other receivables of $6,372,000 were reclassified to contract assets at 1 January 2018 as a result of the initial application of HKFRS 15 (see note 2(c)).

HKFRS 7.11A(a), (b)

(ii) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the group. At 1 January 2018, the group designated its investment in Bright Top (Asia) Ltd at FVOCI (non-recycling), as the investment is held for strategic purposes.

(iii) Under HKAS 39, units in bond funds were classified as available-for-sale financial assets. They are classified as at FVPL under HKFRS 9.

(iv) Trading securities and derivative financial assets (except for those designated as hedging instruments in cash flow hedges) were classified as financial assets at FVPL under HKAS 39. These assets continue to be measured at FVPL under HKFRS 9.

The measurement categories for all financial liabilities remain the same, except for financial guarantee contracts.

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.

Financial guarantees issued are initially recognised within "trade and other payables"[43] at fair value. Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. The group monitors the risk that the specified debtor will default on the contract and recognises a provision when expected credit losses (ECLs, see note 2(b)(ii)) on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2(b)(ii) apply.

As the group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the group expects to receive from the holder of the

[43] HK Listco has decided to present this balance within trade and other payables, on the basis that these financial guarantees are a source of liquidity risk for the group and may result in cash outflows. Income from issuing financial guarantees falls outside the scope of HKFRS 15 and therefore the presentation requirements relating to contract liabilities found in HKFRS 15.106 do not apply to this balance.

guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows[44].

The carrying amounts for all financial liabilities (including financial guarantee contracts) at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

HKFRS 7.42I(c)

The group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

HKFRS 7.35F

The group applies the new ECL model to the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates);
- contract assets as defined in HKFRS 15 (see note 2(c));
- debt securities measured at FVOCI (recycling);
- lease receivables;
- financial guarantee contracts issued (see note 2(b)(i)); and
- loan commitments issued, which are not measured at FVPL[45].

Financial assets measured at fair value, including units in bond funds, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the group expects to receive if the loan is drawn down.

HKFRS 9.B5.5.48 — [44] An entity can reflect risks specific to the cash flows in either the discount rate or the cash shortfalls being discounted.

HKFRS 9.BCZ2.2 — [45] A loan commitment is a firm commitment to provide credit under pre-specified terms and conditions. For example, a loan commitment arises when an entity commits itself to invest further loan capital into a capital project of another entity at a pre-determined interest rate.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;
- lease receivables: discount rate used in the measurement of the lease receivable;
- loan commitments: current risk-free rate adjusted for risks specific to the cash flows[44].

The maximum period considered when estimating ECLs is the maximum contractual period over which the group is exposed to credit risk.

In measuring ECLs, the group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs[46]. ECLs on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments (including loan commitments issued), the group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

HKFRS 7.35F(a) & (b)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the group in full, without recourse by the group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due[47]. The group considers both quantitative and qualitative information that is reasonable and

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HKFRS 9.5.5.15

[46] For trade receivables and contract assets under HKFRS 15 without a significant financing component and those to which the practical expedient in paragraph 63 of HKFRS 15 has been applied, an entity is required to measure the loss allowance at an amount equal to lifetime ECLs. For trade receivables and contract assets under HKFRS 15 with a significant financing component and for lease receivables, an entity can choose as an accounting policy either to always measure the loss allowance at an amount equal to lifetime ECLs (i.e. the simplified model) or to apply the "general" model. The general model in HKFRS 9 involves recognising a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk since initial recognition, in which case lifetime ECLs are recognised. The accounting policy chosen should be applied to all such trade receivables, contract assets and lease receivables.

supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:
failure to make payments of principal or interest on their contractually due dates[48];

- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the group.

For loan commitments, the date of initial recognition for the purpose of assessing ECLs is considered to be the date that the group becomes a party to the irrevocable commitment. In assessing whether there has been a significant increase in credit risk since initial recognition of a loan commitment, the group considers changes in the risk of default occurring on the loan to which the loan commitment relates.

HKFRS 7.35F(c)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings[49].

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is

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HKFRS 7.35F(b)

47 HKFRS 7.35F(b) requires an entity to disclose its definitions of default, including the reasons for selecting those definitions. Although this disclosure requirement is not specifically applicable to condensed interim financial statements, HK Listco has provided this information as part of the explanation of the changes in accounting policy arising from the adoption of HKFRS 9.

HKFRS 9.B5.5.37

Default is not defined in HKFRS 9. An entity should apply a default definition that is consistent with the definition used for internal credit risk management purposes for the relevant financial instruments. However, there is a rebuttable presumption that when a financial asset is 90 days past due it is in default unless an entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

HKFRS 9.5.5.11

48 Paragraph 5.5.11 of HKFRS 9 includes a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. Unless this presumption is rebutted, lifetime ECLs should be recognised whenever contractual payments are more than 30 days past due. Lifetime ECLs should also be recognised whenever significant increase in credit risk arises, even if contractual payments are less than 30 days past due. .

HKFRS 9.B5.5.5

49 Other examples of shared credit risk characteristics include:
(a) collateral types;
(b) dates of initial recognition;
(c) remaining terms to maturity;
(d) industries;
(e) geographical locations of the borrowers; and
(f) the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring.

recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

HKFRS 7.35F(d)

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

HKFRS 7.35F(e)

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

Opening balance adjustment

As a result of this change in accounting policy, the group has recognised additional ECLs amounting to $700,000, which decreased retained earnings by $576,000 and non-controlling interests by $3,000 and increased gross deferred tax assets by $121,000 at 1 January 2018.

HKFRS 7.42P

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	$'000
Loss allowance at 31 December 2017 under HKAS 39	3,090
Additional credit loss recognised at 1 January 2018 on:	
- Trade receivables	566
- Bills receivable (included in trade and other receivables)	1
- Contract assets recognised on adoption of HKFRS 15	132
- Cash and cash equivalents	1
Loss allowance at 1 January 2018 under HKFRS 9	3,790

(iii) Hedge accounting

The group has elected to adopt the new general hedge accounting model in HKFRS 9[50]. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to HKAS 39 to be applied, and the assessment is always forward-looking[51]. The adoption of HKFRS 9 has not had a significant impact on the group's financial statements in this regard.

(iv) Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the group):
  - the determination of the business model within which a financial asset is held; and
  - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

- All hedging relationships designated under HKAS 39 at 31 December 2017 met the criteria for hedge accounting under HKFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships. Changes to hedge accounting policies have been applied prospectively.

HKFRS 9.7.2.21, 22 & 26

[50] Upon the initial application of HKFRS 9, an entity may choose as its accounting policy to continue to apply the hedge accounting requirements under HKAS 39 instead of those under HKFRS 9 until the IASB completes its project on accounting for dynamic risk management (standards issued by the IASB are the sources of HKFRSs). An entity may also subsequently change its accounting policy of applying the HKAS 39 hedge accounting requirements in accordance with HKAS 8, *Accounting policies, changes in accounting estimates and errors*. An entity applies the accounting policy chosen to all (including both existing and new) hedging relationships.

If an entity chooses to apply the hedge accounting requirements under HKFRS 9, the requirements are applied prospectively, with some limited exceptions. The exceptions from prospective application relate to the new accounting treatment for the time value of options when only the intrinsic value is designated, for the forward element of forward contracts when only the spot element is designated, and for the foreign currency basis spread of financial instruments.

[51] Other possible differences compared to HKAS 39 include the ability to hedge an aggregated exposure or a component of a non-financial item and the application of the cost of hedging approach to the time value of options, the forward element of forward contracts and foreign currency basis spreads. This description of the impact of HKFRS 9 should be tailored as applicable to suit the reporting entity's circumstances.

HKAS 34.15B(b), 16A(l)

[52] HKFRS 15 introduces extensive disclosure requirements which aim to assist users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. So far as condensed interim financial statements are concerned, HKFRS 15 has made consequential amendments to HKAS 34 to explicitly require the disclosure of the following:

- disaggregation of revenue from contracts with customers;
- relationship between the disclosures of disaggregation of revenue from contracts with customers and revenue information that is disclosed for each reportable segments (if the entity applies HKFRS 8); and
- impairment loss recognised or reversed in relation to assets arising from contracts with customers, if it is significant.

Other disclosure requirements in HKFRS 15 are not specifically applicable to condensed interim financial statements.

HKAS 34.15, 15C, 16A(a)

However, entities should bear in mind the disclosure objective in HKAS 34, which is to explain events and transactions that are significant to an understanding of the changes in financial position and performance since the end of the last annual reporting period. Entities therefore should exercise judgement based on their facts and circumstances to determine whether the disclosures in HKFRS 15 need to be provided in the interim financial statements in order to meet the objective of HKAS 34.

HKFRS 15.C3-C8

[53] HKFRS 15 is effective for annual periods beginning on or after 1 January 2018. An entity can elect to adopt the new standard (1) retrospectively (retrospective transition method), or (2) from the beginning of the year of initial application with no restatement of comparative information (cumulative effect method), with or without the use of optional practical expedients.

If the entity applies one or more practical expedients, then it needs to disclose the expedients that have been used and a qualitative assessment of the estimated effect of applying each of those expedients to the extent reasonably possible.

(c) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.[52]

HKFRS 15.C7 The group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the group has applied the new requirements only to contracts that were not completed before 1 January 2018[53].

The following table summarises the impact of transition to HKFRS 15 on retained earnings and the related tax impact at 1 January 2018:

	$'000
Retained earnings	
Earlier revenue and profit recognition for manufacturing electronic products under certain made-to-order arrangements	1,837
Capitalisation of sales commissions	514
Related tax	(376)
Net increase in retained earnings at 1 January 2018	1,975

Further details of the nature and effect of the changes on previous accounting policies are set out below:

(i) Timing of revenue recognition

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three 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 is considered in determining when the transfer of control occurs

The adoption of HKFRS 15 does not have a significant impact on when the group recognises revenue from construction contracts. However, the timing of revenue recognition for sales of electronic products and sales of properties is affected as follows:

- Sales of electronic products: some of the group's contracts with customers are made-to-order manufacturing arrangements where the group manufactures the products in accordance with the customer's specification and under the contract the group has the right to be paid for work done to date if the customer were to cancel the contract before the order was fully completed. These contracts therefore satisfy the criteria for category C for recognising revenue over time during the manufacturing process, whereas previously the group did not recognise revenue until the products were delivered to the customers' premises. Accordingly, revenue and the associated costs for these contracts are recognised in profit or loss earlier under HKFRS 15 than under HKAS 18.

  As a result of this change in accounting policy, the group has made adjustments to opening balances at 1 January 2018 which increased retained earnings by $1,543,000, increased contract assets by $8,835,000, increased current tax liabilities[54] by $294,000 and decreased inventories (work in progress) by $6,998,000.

- Sales of properties: 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 property sales contracts do not meet the criteria for recognising revenue over time and therefore revenue from property sales continues to be recognised at a point in time. Previously the group recognised revenue from property sales upon the later of the signing of the sale and purchase agreement and the completion of the property development, which was taken to be the point in time when the risks and rewards of ownership of the property were transferred to the customer. Under the transfer-of-control approach in HKFRS 15, revenue from property sales is generally 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 change in accounting policy had no material impact on opening balances as at 1 January 2018. However, in future periods it may have a material impact, depending on the timing of completion of the group's property development projects.

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[54] Upon the adoption of HKFRS 15, revenue may be recognised earlier or later than under HKASs 18 and 11 and that would result in opening adjustments to retained earnings at 1 January 2018 if cumulative effect method is adopted or retained earnings at 1 January 2017 and 31 December 2017 if retrospective transition method is adopted. Care should be taken when considering the corresponding tax implications under the relevant tax jurisdictions.

In this illustration, it is assumed that profit arising from the earlier revenue recognition for made-to-order electronic products that was included in the opening adjustments to the retained earnings at 1 January 2018 would be taxed in 2018, and hence, additional current tax liabilities arose on 1 January 2018.

(ii) 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 of revenue recognition or significantly deferred.

Previously, the group only applied such a policy when payments were significantly deferred, which was not common in the group's arrangements with its customers. The group did not apply such a policy when payments were received in advance.

It is not common for the group to receive payments significantly in advance of revenue recognition 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, depending on market conditions, the group may offer customers a discount compared to the listed sales price, provided that the customers agree to pay the balance of the consideration early while construction is still ongoing, rather than on legal assignment.

Where payment schemes include a significant financing component, the transaction price is adjusted to separately account for this component. In the case of payments in advance, such adjustment results in interest expense being accrued by the group to reflect the effect of the financing benefit obtained by the group from the customers during the period between the payment date and the completion date of legal assignment. This accrual increases the amount of the contract liability during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23, *Borrowing costs*.

As a result of this change in policy, the group has made adjustments which increased inventories and contract liabilities by $875,000 at 1 January 2018. As all of the accrued interest was eligible to be capitalised into projects still under construction, this change in policy has had no effect on retained earnings as at 1 January 2018.

(iii) Sales commissions payable related to property sales contracts

The group previously recognised sales commissions payable related to property sales contracts as distribution costs when they were incurred. Under HKFRS 15, the group is required to capitalise these sales commissions as costs of obtaining contracts when they are incremental and are expected to be recovered, unless the expected amortisation period is one year or less from the date of initial recognition of the asset, in which case the sales commissions can be expensed when incurred. Capitalised commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as distribution costs[55] at that time.

As a result of this change in accounting policy, the group has capitalised sales commissions payable related to property sales contracts amounting to $514,000, increased deferred tax liabilities[56] by $82,000 and increased retained earnings by $432,000 at 1 January 2018.

(iv) Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the group has an unconditional right to consideration. If the group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances relating to construction contracts in progress were presented in the statement of financial position under "trade and other receivables" or "trade and other payables" respectively, and work in progress in respect of the group's made-to-order manufacturing arrangements was included within inventory until the products were delivered to the customer and the revenue was recognised for the reasons explained in paragraph (i) above.

HKAS 1.15 & 99

[55] HKFRS 15.99 requires capitalised contract costs to be charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. HKFRS 15 describes this systematic charging as "amortisation". However, in practice, when the capitalised cost relates to a good or service for which revenue is recognised at a single point in time, such as in HK Listco's example of a sales commission on a property sale, the contract cost will be recognised in profit or loss at the same point in time as the property revenue, rather than being spread over a period. Given this, users of the financial statements may find it confusing to see this charge described as "amortisation" and it would be advisable to use other terms which they are more familiar with, such as "charge" or "expense".

Similarly, judgement is required in determining where to classify the expense in the statement of profit or loss. The appropriate classification will generally depend on the nature of the entity and the industry in which it operates. In this illustration, HK Listco presents its expenses by function and includes sales commissions in profit or loss as "distribution costs" because this is the function of these expenses, irrespective of whether they are being capitalised and recognised later when related revenue is recognised or expensed as incurred. If an entity chooses to present its expenses by nature (e.g. depreciation and amortisation, purchase of materials, transport costs, employee benefits, etc), then judgement will be required to determine the nature of the expenses arising from the systematic recognition in profit and loss of capitalised contract costs.

In all cases, an entity is subject to the general requirement to ensure that its presentation is not misleading and is relevant to an understanding of its financial statements.

[56] Upon the adoption of HKFRS 15, certain costs that were expensed in previous periods as incurred may be eligible for capitalisation and this will result in adjustments to the opening balance of retained earnings on 1 January 2018. These costs may have already been claimed as a tax deduction in previous years and therefore care should be taken when considering the corresponding tax implications of the opening balance adjustment under different tax jurisdictions.

In this illustration, it is assumed that the group had already claimed tax deductions in the previous period in which the sales commissions were originally expensed. It has also been assumed that the eventual amortisation charge of this specific amount would not be tax deductible a second time around. Accordingly, corresponding deferred tax liabilities are recognised on 1 January 2018 as part of the adjustment to opening balances. If instead such prior year tax deductions were expected to be clawed back by the tax authorities in the tax year 2018 upon the opening balance adjustment to capitalise the sales commissions, then this opening balance adjustment should be to current tax liabilities, rather than deferred tax.

To reflect these changes in presentation, the group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:

a. "Gross amounts due from customers for contract work" and "trade debtors and bills receivable" amounting to $8,263,000 and $6,372,000 respectively, which were previously included in trade and other receivables are now included under contract assets.

b. "Gross amounts due to customers for contract work", "advances received" and "forward sales deposits and instalments received" amounting to $915,000, $691,000 and $4,692,000 respectively, which were previously included in trade and other payables are now included under contract liabilities; and

c. As explained in (i) above, adjustments to opening balances have been made to increase contract assets by $8,835,000 and decrease inventories (work in progress) by $6,998,000 in respect of the group's made-to-order manufacturing arrangements.

(d) HK(IFRIC) 22*, Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "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) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of 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 date of the transaction for each payment or receipt should be determined in this way. [The adoption of HK(IFRIC)22 does not have any material impact on the financial position and the financial result of the group.] *[Or describe any material impact on adoption of HK(IFRIC) 22 as appropriate.]*

HKAS 34.16A(g)
HKAS 34.16A(l)

3 REVENUE AND SEGMENT REPORTING[57]

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, the group has identified six reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Disaggregation of revenue[58]

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017 (Note)
	$'000	$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products of service lines		
- Sales of electronic products	472,888	420,219
- Sales of completed properties	52,597	60,383
- Revenue from construction contracts	12,696	8,913
	538,181	489,515
Revenue from other sources		
- Gross rentals from investment properties	4,267	3,105
	542,448	492,620
Disaggregated by geographical location of customers		
- Hong Kong (place of domicile)	383,542	352,253
- Mainland China	875	610
- United States	64,764	50,300
- Singapore	21,734	11,087
- Malaysia	16,296	7,865
- Germany	17,634	22,725
- France	9,387	14,615
- Other countries	28,216	33,165
	158,906	140,367
	542,448	492,620

Note: The group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2(c)).[59]

The geographical analysis above includes property rental income from external customers in Hong Kong and in Mainland China for the six months ended 30 June 2018 of $3,897,000 (six months ended 30 June 2017: $2,797,000) and $370,000 (six months ended 30 June 2017: $308,000) respectively.

HKAS 34.16A(l) Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in note 3(b).

HKAS 34.16A(g),(l)

[57] 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". Further details of the requirements of HKFRS 8 can be found in footnotes 87-88 and 90-103 of the December 2017 edition of *Illustrative annual financial statements under Hong Kong Financial Reporting Standards*.

An entity that discloses segment information in its annual financial statements in accordance with HKFRS 8 should disclose the following in its condensed interim financial report prepared in accordance with HKAS 34:

a) a measure of segment profit or loss;
b) revenues from external customers and inter-segment revenues, if included in the measure of segment profit or loss reviewed by, or otherwise provided regularly to, the chief operating decision maker (CODM);
c) a measure of total assets and total liabilities for a particular reportable segment if such amounts are regularly provided to the CODM and if there has been material change from the amount disclosed in the last annual financial statements for that reportable segment;
d) any change in the basis of segmentation or the basis of measuring segment profit or loss;
e) a reconciliation between the total of the reportable segments' measure of profit or loss to the entity's profit or loss before tax and discontinued operations; and

Apart from the above, HKAS 34, as amended by HKFRS 15, requires an entity to disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue disclosed in accordance with HKFRS 15.114 and the revenue information disclosed for each reportable segment (see footnote 58 for further details).

HKAS 34.16A(l), HKFRS 15.114-115, B89

[58] HKAS 34 has been amended to require the interim financial report to include the same disaggregated revenue information that is now required in the annual financial statements by HKFRS 15. This means that in both the annual financial statements and in the interim financial report an entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors, and shall provide sufficient information to enable users of the financial statements to understand the relationship between that disclosure of disaggregated revenue and the revenue information disclosed for each reportable segment (if the entity applies HKFRS 8 *Operating segments*).

The extent to which an entity's revenue is disaggregated for the purposes of this disclosure depends on the facts and circumstances of the entity's contracts with customers. Some entities may need to use more than one type of category to meet the objective in HKFRS 15.114 for disaggregation of revenue. Others may meet the objective by using only one type of category.

Examples of categories that might be appropriate include, but are not limited to, the following:

- type of good or service, i.e. major products or service lines;
- geographic region, i.e. countries or regions;
- market or types of customer, i.e. wholesale or retails, government or non-government;
- type of contract, i.e. fixed-price or cost-plus;
- contract duration, i.e. short-term or long-term;
- timing of revenue recognition, i.e. at a point in time or over time;
- sales channel, i.e. directly to consumers or through intermediaries.

So far as the annual financial statements are concerned, this requirement to disclose disaggregated revenue may be partially or wholly satisfied by information already disclosed, particularly if the entity is required to comply with HKFRS 8, as HKFRS 8 requires revenue for each segment to be disclosed, as well as requiring entity-wide disclosures of revenue analysed by products and services and by geographical location of customers. However, typically only the segment revenue analysis was included in the interim financial report in previous periods. Therefore, in the first interim financial report prepared after HKFRS 15 and the amended HKAS 34 become effective, entities should ensure that the interim financial report is expanded to include the full extent of disaggregated revenue information as is disclosed in annual financial statements and should also apply judgement to assess how much additional disaggregated information they intend to disclose in the first annual report prepared under HKFRS 15, in order to provide the same level of disaggregation in the first interim report prepared after HKFRS 15 becomes effective.

In this illustration, it is assumed that HK Listco would have already disclosed revenue analysed by major products and service lines and geographical location of customers in its 2017 annual financial statements, in addition to disclosure of revenue by segment, for the purposes of satisfying HKFRS 8. In addition, HK Listco has decided that for the purposes of satisfying HKFRS 15.115, it will expand the segment disclosure table in its 2018 annual financial statements to analyse the revenue in each segment between those contracts where revenue is recognised at a point in time and those where revenue is recognised over time, so as to help users better understand the timing of revenue recognition. Accordingly, HK Listco has taken the same approach in its interim financial report and disclosed the disaggregated revenue by major products and service lines and geographical location of customers in note 3(a) and expanded the segment disclosure table to include disaggregated revenue by the timing of revenue recognition in note 3(b). Other approaches may also be acceptable.

[59] In this illustration, HK Listco uses the cumulative effect transition method and has not restated the comparative information. The comparative information is thus disaggregated based on the revenue numbers prepared in accordance with HKAS 18 and HKAS 11. Although not explicitly required, it is useful to highlight to the users the fact that the comparative information provided may not be comparable with the current period and to provide further information on where details of any opening balance adjustments may be found.

(b) Information about profit or loss, assets and liabilities

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as 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 period is set out below.

		Electronics – Hong Kong		Electronics – South East Asia		Electronics – Rest of the world		Property development		Construction contracts		Property leasing		Total	
	For the six months ended	2018	2017 (Note)	2018	2017 (Note)	2018	2017 (Note)	2018	2017 (Note)	2018	2017 (Note)	2018	2017	2018	2017 (Note)
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
HKAS 34.16A(l)	**Disaggregated by timing of revenue recognition[58]**														
	Point in time	265,540	264,188	59,550	55,225	100,000	100,806	52,597	60,383	-	-	-	-	477,687	480,602
	Over time	39,678	-	8,120	-	-	-	-	-	12,696	8,913	4,267	3,105	64,761	12,018
HKAS 34.16A(g)(i)	**Revenue from external customers**	**305,218**	**264,188**	**67,670**	**55,225**	**100,000**	**100,806**	**52,597**	**60,383**	**12,696**	**8,913**	**4,267**	**3,105**	**542,448**	**492,620**
HKAS 34.16A(g)(ii)	Inter-segment revenue	52,055	51,953	625	464	-	-	-	-	-	-	-	-	52,680	52,417
	Reportable segment revenue	**357,273**	**316,141**	**68,295**	**55,689**	**100,000**	**100,806**	**52,597**	**60,383**	**12,696**	**8,913**	**4,267**	**3,105**	**595,128**	**545,037**
HKAS 34.16A(g)(iii)	**Reportable segment profit (adjusted EBITDA)**	47,079	42,705	10,448	9,424	14,628	13,193	17,129	16,645	2,491	1,581	12,710	5,847	104,485	89,395
	Impairment of plant and machinery	-	-	-	-	-	-	(1,200)	-	-	-	-	-	(1,200)	-
	As at 30 June / 31 December														
HKAS 34.16A(g)(iv)	**Reportable segment assets**	286,904	279,421	60,177	56,900	84,292	81,050	137,715	133,386	55,700	58,540	78,057	69,036	702,845	678,333
HKAS 34.16A(g)(iv)	**Reportable segment liabilities**	143,202	142,104	46,848	44,617	30,670	29,490	48,590	50,510	570	1,067	10,160	10,164	280,040	277,952

Note: The group has initially applied HKFRS 15 using cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 and HKAS 11 (see note 2(c))[59].

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.

(c) Reconciliations of reportable segment profit or loss

HKAS 34.16A(g)(vi)

	Six months ended 30 June 2018 $'000	2017 $'000
Reportable segment profit	104,485	89,395
Elimination of inter-segment profits	(13,170)	(13,103)
Reportable segment profit derived from group's external customers and joint venture	91,315	76,292
Share of profits less losses of associates	2,250	1,322
Other income	8,404	7,081
Depreciation and amortisation	(8,622)	(7,614)
Finance costs	(8,270)	(6,345)
Impairment losses on non-current assets	(1,200)	-
Unallocated head office and corporate expenses	(6,893)	(6,901)
Consolidated profit before taxation	76,984	63,835

HKAS 34.16A(b)

4 SEASONALITY OF OPERATIONS[60]

The group's Electronics division, which comprises three reportable segments (see note 3(b)), on average experiences 20-30% higher sales in the fourth quarter, compared to other quarters in the year, due to the increased retail demand for its products during the Christmas holiday period. The group anticipates this demand by increasing its production to build up inventories during the second half of the year. Excess inventory still held at the end of the holiday season is sold off at reduced prices in the first quarter of the following year. As a result, this division of the group typically reports lower revenues and segment results for the first half of the year, than the second half.

HKAS 34.21

For the twelve months ended 30 June 2018, the Electronics division reported revenue of $998,204,000 (twelve months ended 30 June 2017: $852,306,000), and gross profit of $252,311,000 (twelve months ended 30 June 2017: $214,459,000).

HKAS 34.16A(b) & 21

[60] Paragraph 16A(b) of HKAS 34 requires an entity to explain any seasonality or cyclicality of its interim operations.

In addition, paragraph 21 of HKAS 34 encourages entities with highly seasonal business to supplement the required disclosures with financial information for the 12-month period ending on the interim reporting date, as well as comparatives. There is no guidance on what additional information might be provided and in our view such information may be limited to the information that is affected by seasonality, such as revenue and gross margin.

5 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2018	2017
		$'000	$'000
(a)	**Finance costs**		
	Interest on borrowings	10,107	7,800
	Less: interest expense capitalised into properties under development	(1,888)	(1,515)
		8,219	6,285
	Other finance costs	51	60
	Total finance costs	8,270	6,345

		Six months ended 30 June	
		2018	2017 (Note)[7]
		$'000	$'000
(b)	**Other items**		
	Amortisation	1,508	918
	Depreciation	7,114	6,696
	Research and development costs (other than amortisation)	2,780	2,400
HKAS 34.15B(b)	Impairment losses		
	- trade and other receivables and contract assets[52]	850	680
	- plant and machinery (note 8(b))	1,200	-
HKAS 34.15B(a)	Inventory write-down and losses net of reversals (note 9)	6,397	5,287
	Dividend and interest income	(1,092)	(1,076)
	Net realised and unrealised gains on trading securities	(4,296)	(2,140)
	Net realised and unrealised gains on investments not held for trading	(653)	-

Note: The group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2[7].

6 INCOME TAX

	Six months ended 30 June	
	2018	2017
	$'000	$'000
Current tax - Hong Kong Profits Tax	7,261	7,299
Current tax - Overseas	4,076	3,452
Deferred taxation	2,265	(83)
	13,602	10,668

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2017: 16.5%) to the six months ended 30 June 2018. Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

7 EARNINGS PER SHARE

(a) Basic earnings per share

CP

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of $58,174,000 (six months ended 30 June 2017: $48,083,000) and the weighted average of 99,724,000 ordinary shares (2017: 100,000,000 shares, after adjusting for the bonus issue in 2018)[61] in issue during the interim period.

(b) Diluted earnings per share

CP

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of $58,437,000 (six months ended 30 June 2017: $48,345,000) and the weighted average number of ordinary shares of 100,510,000 (2017: 100,500,000 shares, after adjusting for the bonus issue in 2018[61]).

8 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

HKAS 34.15B(d)

(a) Acquisitions and disposals

During the six months ended 30 June 2018, the group acquired items of plant and machinery with a cost of $6,816,000 (six months ended 30 June 2017: $6,353,000). Items of plant and machinery with a net book value of $416,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: $nil), resulting in a loss on disposal of $42,000 (six months ended 30 June 2017: $nil).

HKAS 33.26-27, 64

[61] 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 34.15B(b)

(b) Impairment losses

During the six months ended 30 June 2018, a number of machines in the property development division 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[62]. 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[63]. The fair value on which the recoverable amount is based is categorised as a Level 3 measurement.

(c) Valuation[63]

The valuations of investment properties and land and buildings held for own use carried at fair value were updated at 30 June 2018 by the group's independent valuer using the same valuation techniques as were used by this valuer when carrying out the December 2017 valuations.

As a result of the update, a net gain of $9,130,000 (2017: $3,260,000), and deferred tax thereon of $1,479,000 (2017: $460,000), has been recognised in profit or loss for the period in respect of investment properties. The before-tax and net-of-tax amounts of $14,770,000 and $13,618,000 (2017: $3,874,000 and $3,416,000) respectively have been recognised in other comprehensive income for the period in respect of land and buildings held for own use.

HKAS 34.15B

62 Under HKAS 34.15B, recognition or reversal of impairment loss on financial assets, property, plant and equipment, intangible assets, assets arising from contracts with customers and other assets is one of the events for which disclosures would be required if it is significant. However, the content and level of details of such disclosures are not specified in HKAS 34. Entities therefore need to exercise judgement to determine the extent of disclosures in HKAS 36 to be given in the condensed interim financial reports. When exercising judgement, entities should bear in mind the disclosure objective of HKAS 34, which is to explain events and transactions that are significant to an understanding of the changes in financial position and performance since the end of the last annual reporting period.

HKAS 36.130(e)&(f)

In this illustration, it is assumed that the information required by HKAS 36 regarding the recoverable amount of impaired assets is necessary for an understanding of changes in financial position and performance, and therefore HK Listco provides the disclosures in accordance with paragraphs 130(e)&(f) of HKAS 36.

HKAS 34.C7

63 Paragraph 41 of HKAS 34 accepts that the preparation of an interim financial report will require a greater use of estimation methods than annual financial reports and Appendix C to HKAS 34 gives relying on professionally qualified valuers only at the annual reporting date, rather than at each interim date, as an example of this. In this respect the following should be noted:

- The interim report is required to be presented using the same accounting policies as the entity applies in its annual financial statements (HKAS 34.28). Therefore, in principle, the carrying value of assets measured at fair value, for example investment property, should be the fair value of those assets as at the interim reporting date.
- HKAS 34 also requires that the measurement procedures to be followed in an interim report shall be designed to ensure that the resulting information is reliable (HKAS 34.41).

In this interim financial report we have assumed that management has engaged its professional valuers at the interim date to provide up to date valuations of the properties. However, extrapolations based on a review for indications of significant changes in the value since the previous annual reporting date may be sufficient for an interim financial report depending on, for example, the volatility of the property market and the availability of market data on comparable properties. As is the case in the preparation of the annual financial statements under HKAS 40 (see HKAS 40.32) and HKAS 16 (see HKAS 16.34), management should exercise their judgement as to whether they are able to arrive at sufficiently reliable measures of their property portfolio at the interim reporting date without the involvement of an expert.

9 INVENTORIES AND OTHER CONTRACT COSTS

HKAS 34.15B(a)

During six months ended 30 June 2018, $1,500,000 (2017: $nil) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period, being the amount of reversal of a write-down of inventories to the estimated net realisable value. This reversal arose due to an increase in the estimated net realisable value of certain electronic goods as a result of a change in consumer preferences.

10 TRADE AND OTHER RECEIVABLES

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 loss allowance, is as follows[64]:

	At 30 June 2018 $'000	At 31 December 2017 $'000
Within 1 month	51,280	50,973
1 to 2 months	9,616	9,557
2 to 3 months	1,923	1,911
Over 3 months	1,282	1,274
Trade debtors and bills receivable, net of loss allowance	64,101	63,715
Other debtors	500	546
Financial assets measured at amortised cost	64,601	64,261
Insurance reimbursement	1,731	1,752
Derivative financial instruments	2,257	3,613
Deposits and prepayments	455	190
Gross amount due from customers for contract work (note)	-	8,263
	69,044	78,079

Note: Upon the adoption of HKFRS 15, gross amount due from customers for contract work is included in contract assets (see note 2(c)).

Trade debtors and bills receivable are due[65] 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.

A16(4)(2)(a), A16(4)(2)(b), A16(4): Note 4.2

[64] For Main Board listed issuers, the MBLRs require disclosure of the group's ageing analysis of accounts receivable and payable in both the annual and the interim financial statements. 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 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.

[65] As defined in appendix A to HKFRS 9, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

11 CASH AND CASH EQUIVALENTS

	At 30 June 2018 $'000	At 31 December 2017 $'000
Deposits with banks and other financial institutions	45,760	53,060
Cash at bank and in hand	28,023	52,029
Cash and cash equivalents in the statement of financial position	73,783	105,089
Bank overdrafts	(1,368)	(2,789)
Cash and cash equivalents in the cash flow statement	72,415	102,300

12 TRADE AND OTHER PAYABLES

A16(4)(2)(b)

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:[64]

	At 30 June 2018 $'000	At 31 December 2017 $'000
Within 1 month	92,025	87,435
1 to 3 months	46,584	45,962
Over 3 months but within 6 months	1,370	1,106
Total creditors and bills payable	139,979	134,503
Other creditors and accrued charges	766	504
Dividends payable on redeemable preference shares	100	100
Amounts due to ultimate holding company and fellow subsidiaries	8,000	8,700
Financial liabilities measured at amortised cost	148,845	143,807
Derivative financial instruments	290	243
Financial guarantees issued	7	8
Gross amount due to customers for contract work (note)	-	915
Advance received (note)	-	691
Forward sales deposits and instalments received (note)	-	4,692
	149,142	150,356

Note: As a result of the adoption of HKFRS 15, gross amount due to customers for contract work, advances received and forward sales deposits and instalments received are included in contract liabilities (see note 2(c)).

13 CAPITAL, RESERVES AND DIVIDENDS

HKAS 34.16A(f)
A16(4)(3)

(a) Dividends

(i) Dividends payable to equity shareholders attributable to the interim period

	2018	2017
	$'000	$'000
Interim dividend declared and paid after the interim period of 30 cents per share (2017: 30 cents per share)	29,910	27,000

The interim dividend has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2018	2017
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 55 cents per share (six months ended 30 June 2017: 50 cents per share)	49,500	45,000

(iii) Dividends on redeemable preference shares issued by the company

Dividends on redeemable preference shares are paid semi-annually in arrears at a rate of 5% per annum of the shares' nominal amount on 30 June and 31 December each year as from their issue date of 1 January 2017. Dividends of $100,000 were recognised as an expense in finance costs for the six months ended 30 June 2018 (six months ended 30 June 2017: $100,000). Dividends of $100,000 were accrued but unpaid as at 30 June 2018 (31 December 2017: $100,000).

HKAS 34.16A(e)

(b) Bonus issue

On 8 January 2018, 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.

(c) Purchase of own shares

A16(41)(1)
HKAS 34.16A(e)

During the interim period, the company repurchased its own 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 2018	300,000	6.65	6.55	1,980
May 2018	200,000	6.80	6.70	1,350
				3,330

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid on the repurchased shares of $3,330,000 was paid wholly out of retained profits.[66]

(d) Equity settled share-based transactions

On 1 May 2018, 500,000 share options were granted for nil consideration to employees of the company under the company's employee share option scheme (no share options were granted during the six months ended 30 June 2017). Each option gives the holder the right to subscribe for one ordinary share of the company. These share options will vest on 30 April 2019, and then be exercisable until 2021. The exercise price is $6.5, being the weighted average closing price of the company's ordinary shares immediately before the grant.

No options were exercised during the six months ended 30 June 2018 (2017: nil).

(e) Reserves

(i) Fair value reserve (recycling)

The fair value reserve (recycling) comprises the cumulative net change in the fair value of debt securities measured at FVOCI under HKFRS 9 held at the end of the reporting period (see note 2(b)). Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with HKAS 39. This amount has been reclassified to fair value reserve (non-recycling) upon the initial adoption of HKFRS 9 at 1 January 2018 (see note 2(b)).

(ii) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 2(b)(i)).

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66 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.

HKFRS 13.91-92, 94-95 & 99

[67] HKAS 34.16A(j) requires entities to apply HKFRS 13.91-93(h), 94-96, 98 and 99 for disclosures about financial instruments which are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition. As explained in footnote 68 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 are "non-recurring".

These HKFRS 13 disclosures are the same disclosures as are required for financial instruments in the full financial statements and should be made in accordance with the overall disclosures objectives and the general principles of HKFRS 13 (set out in paragraphs HKFRS 13.91-92, 94-95 and 99). The overall disclosure objectives are:

- to provide information that enables users of financial statements to assess the methods and inputs used to develop the fair value 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.

The disclosure requirements (mostly in HKFRS 13.93) are different 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 69 below) that the financial assets or financial liabilities are categorised within. The most extensive 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 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).

HKFRS 13.93(a)

[68] Recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. So far as financial instruments are concerned, examples of recurring fair value measurements include financial assets at fair value through profit or loss and financial assets measured at fair value through other comprehensive income.

HKFRS 13.93(b), 72-90

[69] 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.

HKAS 34.16A(j)

14 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

HKFRS 13.91-92

(a) Financial assets and liabilities measured at fair value[67]

HKFRS 13.93(a)& (b)

(i) Fair value hierarchy[69]

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 the unlisted equity securities and the conversion option embedded in convertible notes. 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[70].

		Fair value measurements as at 30 June 2018 categorised into		
	Fair value at 30 June 2018[71] $'000	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Recurring fair value measurement[68]				
Financial assets:				
Units in bond funds	15,875	15,875		
Non-trading listed equity securities	8,210	8,210	-	-
Trading securities	58,176	58,176	-	-
Unlisted equity securities	4,975	-	-	4,975
Derivative financial instruments:				
- Interest rate swaps	1,522	-	1,522	-
- Forward exchange contracts	735	158	577	-
Financial liabilities:				
Derivative financial instruments:				
- Interest rate swaps	54	-	54	-
- Forward exchange contracts	38	-	38	-
- Conversion option embedded in convertible notes	198	-	-	198

HKFRS 13.93(g), IE65

[70] 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 may disclose in respect of the valuation processes.

	Fair value at 31 December 2017[72] $'000	Fair value measurements as at 31 December 2017 categorised into Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement[68]				
Financial assets:				
Available-for-sale financial assets (note):				
- Listed equity securities	6,710	6,710	-	-
- Unlisted equity securities	4,950	-	-	4,950
- Units in bond funds	15,176	15,176		
Trading securities	58,020	58,020	-	-
Derivative financial instruments:				
- Interest rate swaps	1,489	-	1,489	-
- Forward exchange contracts	2,124	659	1,465	-
Financial liabilities:				
Derivative financial instruments:				
- Interest rate swaps	52	-	52	-
- Forward exchange contracts	20	-	20	-
- Conversion option embedded in convertible notes	171	-	-	171

Note: Available-for-sale financial assets were reclassified to financial assets measured at FVPL and those designated at FVOCI (non-recycling) upon the adoption of HKFRS 9 at 1 January 2018 (see note 2(b)(i)).

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

During the six months ended 30 June 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: 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.[73]

HKFRS 13.93(a) & 94

71 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 HKFRS 13.94, 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 measurement categories (i.e. amortised cost, fair value through profit or loss, fair value through other comprehensive income –recycling and non-recycling) in HKFRS 9 when the financial instruments within the same category have different nature, characteristics or risks. For example, in this illustrative interim financial report, the category "measured at fair value through profit or loss" is sub-divided into trading and non-trading securities.

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.

HKFRS 13.C2&C3

72 HKAS 34 does not explicitly require comparative information to be included in the selected explanatory notes in a condensed interim financial report. In our experience, entities generally include both quantitative and narrative comparative information in the explanatory notes because the disclosure is of continuing relevance to the current interim period. Therefore, it would be appropriate to include the comparative information when providing the required HKFRS 13 disclosures in the condensed interim financial report.

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

73 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 13.93(d)

74 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, disclose this fact and the reason(s) for making the change.

HKFRS 13.93(d)

(ii) Valuation techniques and inputs used in Level 2 fair value measurements[74]

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.

HKFRS 13.93(d)

(iii) Information about Level 3 fair value measurements[74]

	Valuation techniques	**Significant unobservable inputs**	**Range[75]**	**Weighted average[75]**
Unlisted equity instruments	Market comparable companies	Discount for lack of marketability	[●]% to [●]% (2017: [●]% to [●]%	[●]% (2017: [●]%)
Conversion option embedded in convertible notes	Binomial lattice model	Expected volatility	[●]% (2017: [●]%)	[●]% (2017: [●]%)

HKFRS 13.93(h)

The fair value of unlisted 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 30 June 2018, 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 $[●] (2017: [●]%).

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75 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)

76 For financial instruments measured at fair value on a recurring basis and categorised within Level 3, entities should provide the following information:

- 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 change fair value significantly. This narrative description should include, at a minimum, the unobservable inputs that have been disclosed under HKFRS 13.93(d);
- a description of the interrelationships and how they might magnify or mitigate the effect of changes if there are interrelationships between those inputs; and
- a quantitative sensitivity analysis if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.

HKFRS 13.93(e) & 93(f)

77 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 those 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.

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 30 June 2018, 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 $[●] (2017: [●]%).[76]

HKFRS 13.93(e)&(f)

The movement during the period in the balance of Level 3 fair value measurements is as follows:[77]

	At 30 June 2018 $'000	At 30 June 2017[78] $'000
Unlisted equity securities:		
At 1 January	4,950	4,800
Additional securities acquired	-	60
Net unrealised gains or losses recognised in other comprehensive income during the period	25	50
At 30 June	4,975	4,910
Conversion option embedded in convertible notes:		
At 1 January	171	169
Changes in fair value recognised in profit or loss during the period	27	2
At 30 June	198	171
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	27	2

From 1 January 2018, any gains or losses arising from the remeasurement of the group's unlisted equity securities held for strategic purposes are recognised in the fair value reserve (non-recycling) in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings. Prior to 1 January 2018, any gains arising from

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[78] As discussed in footnote 72, we believe that it would be appropriate to include the comparatives when providing the required HKFRS 13 disclosures in the condensed interim financial report.

Since there is no specific guidance regarding comparative information in the explanatory notes under HKAS 34, when disclosing the reconciliation for Level 3 recurring fair value measurements, it is not clear which financial period the comparative information should cover. We believe that either of the following approaches are acceptable:

- covering the comparable interim period (i.e. here reconciling from the balances at 1 January 2017 to the balances at 30 June 2017). This approach is based on the view that as the reconciliation includes separate disclosures of gains or losses recognised in profit or loss and in other comprehensive income during the period, the reconciliation will have better comparability when those disclosures provide the information relating to gains or losses recognised in the comparable interim period. This approach is also consistent with the minimum information required to be disclosed in the statement of changes in equity under HKAS 34.20(c); or

- covering the full immediately preceding financial year with additional subtotals showing the balances at the preceding interim period end (i.e. here first reconciling from the balances at 1 January 2017 to the balances at 30 June 2017/1 July 2017, and then from the balances at 30 June 2017/1 July 2017 to 31 December 2017). This approach is consistent with the approach illustrated in HK Listco's statement of changes in equity and provides full reconciliation to the comparative statement of financial position, which is required to present the balances at the end of the immediately preceding financial year under HKAS 34.20(a).

For illustration purpose, HK Listco adopts the first approach in this interim financial report.

the disposal of the unlisted equity securities were presented in the "Other income" line item in the consolidated statement of profit or loss.

The gains arising from the remeasurement of the conversion option embedded in the convertible notes are presented in the "Other income" line item in the consolidated statement of profit or loss.

(b) Fair values of financial assets and liabilities carried at other than fair value[79]

HKFRS 7.25-26

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 2017 and 30 June 2018 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 30 June 2018		At 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Convertible notes	9,462	8,521	9,356	8,450
Redeemable preference shares	3,912	2,766	3,912	2,628

HKFRS 7.25-26 and 28-30

[79] HKAS 34.16A(j) requires entities to disclose in the interim financial reports the information required by HKFRS 7.25-26 and 28-30 for their financial instruments. In this illustrative interim financial report we have illustrated the disclosures required by HKFRS 7.25-26, i.e. the fair values for each class of financial assets and financial liabilities that are not carried at fair value. As stated in HKFRS 7.29, such disclosure is not required:

- when the carrying amount of an financial instrument is a reasonable approximation of fair value;
- for investments in equity instruments that do not have a quoted price in an active market for an identical instrument (i.e. a Level 1 input), or derivatives linked to such equity instruments, that are measured at cost in accordance with HKAS 39 because their fair value cannot otherwise be measured reliably; or
- for a contract containing a discretionary participation feature (as described in HKFRS 4) if the fair value of that feature cannot be measured reliably.

In addition, the additional details required in the annual financial statements by HKFRS 13.97 in respect of this memorandum information are not required to be disclosed in the interim financial reports, as HKFRS 13.97 is omitted from the list in HKAS 34.16A(j).

HKAS 34.15B(e)

15 CAPITAL COMMITMENTS OUTSTANDING NOT PROVIDED FOR IN THE INTERIM FINANCIAL REPORT

	At 30 June 2018 $'000	At 31 December 2017 $'000
Contracted for	1,539	6,376
Authorised but not contracted for	12,500	660
	14,039	7,036

16 CONTINGENT ASSETS AND LIABILITIES

HKAS 34.15B(m)

In June 2018, 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[33]. 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 denies 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.

17 MATERIAL RELATED PARTY TRANSACTIONS

HKAS 34.15B(j)

In January 2018, 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 six months ended 30 June 2018 is $211,000 (2017: $nil). No amounts were outstanding as at 30 June 2018 (31 December 2017: $nil).

18 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

HKAS 34.16A(h)

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 July 2018. Of the $100,000 owed by the debtor, the group expects to recover less than $10,000. No adjustment has been made in this interim financial report in this regard.

19 COMPARATIVE FIGURES[80]

The group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

[80] Although such negative statement is not required, when there are changes in accounting policies, it is useful to highlight to the users the fact that the comparative information provided may not be comparable with the current period and to provide further information on where details of any opening balance adjustments may be found.

20 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE SIX MONTHS ENDED 30 JUNE 2018[81]

A number of amendments and new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. Except for the amendments to HKFRS 9, *Prepayment features with negative compensation,* which have been adopted at the same time as HKFRS 9 (see note 2(b)), the group has not early adopted any new or amended standards in preparing this interim financial report.

The group has the following update to the information provided in the last annual financial statements in respect of HKFRS 16, *Leases,* which may have a significant impact on the group's consolidated financial statements.

HKFRS 16, *Leases*

As discussed in the 2017 annual financial statements, 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. Upon the adoption of HKFRS 16, where the group is the lessee under the lease the group will be required to account for all leases in a similar way to current finance lease accounting, i.e. recognise and measure a lease liability at the present value of the minimum future lease payments and recognise a corresponding "right-of-use" asset at the commencement date of the lease, subject to practical expedients. HKFRS 16 will primarily affect the group's accounting as a lessee of leases for items of property, plant and equipment which are currently classified as operating leases.

During the six months ended 30 June 2018, the group has entered into a new lease agreement for its manufacturing plant in Malaysia, with a lease term of 10 years, and a number of other leases for premises and equipment. These leases are currently classified as operating leases. As a result of these new lease agreements, the impact of the initial adoption of HKFRS 16 is now estimated to be more significant than the group's expectation at the time when the 2017 annual financial statements were prepared.

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[81] Although disclosures about the possible impact of standards issued but not yet effective are not specifically required for condensed interim financial statements prepared under HKAS 34, an entity may consider that it is appropriate to provide an update to the impact disclosures made in its annual financial statements given such information may be of interest to financial statements users. The appropriate level of disclosure will depend on the extent of disclosures provided in the last annual financial statements and the progress made since then to prepare for the adoption of the new standards.

In this illustration, it is assumed that HK Listco has provided detailed discussion about the expected impact of the initial adoption of HKFRS 16 in its last annual financial statements. Therefore, HK Listco only provides an updated information about the current status of the assessment, taking into account the events that occurred since the end of the last annual reporting period.

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.

The following is an updated information about the group's future minimum lease payments, based on the non-cancellable operating leases that have been entered into by 30 June 2018:

	Properties	Others
	$'000	$'000
Amounts payable:		
Within 6 months	[●]	[●]
After 6 months but within 1 year	[●]	[●]
After 1 year but within 5 years	[●]	[●]
After 5 years	[●]	-
	[●]	[●]

Upon the initial adoption of HKFRS 16 at 1 January 2019, the present value of most of the future minimum lease payments that are payable after 6 months will be recognised as lease liabilities, with corresponding right-of-use assets recognised as non-current assets. 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.

[Give further 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 2018 interim financial report are prepared].

HKSRE 2410.43(a) &(b)

Review report to the board of directors of HK Listco Ltd[82]

CP

(Incorporated in Hong Kong with limited liability)[83]

Introduction

HKSRE 2410.43(c)

We have reviewed the interim financial report set out on pages 14 to 66 which comprises the consolidated statement of financial position of HK Listco Ltd (the "company") as of 30 June 2018 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

HKSRE 2410.43(e)

HKSRE 2410.43(f)

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

HKSRE 2410.43(g)

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

HKSRE 2410.43(h)

Conclusion

HKSRE 2410.43(j)

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2018 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

HKSRE 2410.43(k), (l) & (m)

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
25 August 2018

A16(43) [82] While paragraph 39 of Appendix 16 of MBLRs requires the interim report to be reviewed by the listed issuer's audit committee, there is no requirement for the external auditors to perform an audit or review on the interim report. If the accounting information contained in an interim report has been audited by the listed issuer's auditor, the auditor's report including any qualifications should be reproduced in full in the interim report. However, the MBLRs are silent as to whether the auditor's review report should be set out in the interim report if an independent review has been performed by the auditors.

CP [83] In Hong Kong, it is common practice to disclose the place of incorporation of the company in the auditor's report.

Appendix
Recent HKFRS developments

This appendix lists the new Standards, amendments to, and Interpretations of, HKFRSs in issue as at 28 May 2018 which were not yet effective for the 2017 calendar year-ends and therefore may need to be considered for the first time in the preparation of the 2018 interim financial statements. The appendix contains two tables:

- Table 1 lists recent HKFRS developments which are required to be adopted in annual accounting periods beginning on or after 1 January 2018
- Table 2 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.*

<table>
<tr><th>Effective date*</th><th colspan="2">Table 1:
Amendments to HKFRSs first effective for annual periods beginning 1 January 2018</th></tr>
<tr><td>1 Jan 2018</td><td>HKFRS 9
"Financial instruments"</td><td>IFRS 9, which was the source of HKFRS 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. The IASB divided this project into 3 main phases: (1) classification and measurement (2) impairment (3) hedge accounting. The completed standard of IFRS 9 (IFRS 9 (2014)) was issued in July 2014. In October 2017, the IASB issued amendments to IFRS 9, Prepayment features with negative compensation to introduce narrow-scope changes to the standard in relation to classification of financial assets which have prepayment features (see Table 2 for further details).

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 (FVPL) and (3) fair value through other comprehensive income (FVOCI) 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 FVOCI then effective interest, impairments and gains/losses on disposal will be recognised in profit or loss.
For equity securities, the classification is FVPL 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 FVOCI. If an equity security is designated as FVOCI 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 FVPL 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).

(continued)</td></tr>
</table>

Effective date*	Table 1 (continued): Amendments to HKFRSs first effective for annual periods beginning 1 January 2018	
1 Jan 2018	HKFRS 9 "Financial instruments" (continued)	*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. *Transitional provisions* Entities may apply HKFRS 9 retrospectively with some exemptions. Entities are allowed, as an accounting policy choice, to continue to apply the 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.
1 Jan 2018	HKFRS 15 "Revenue from contracts with customers"	IFRS 15, which was the source of HKFRS 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. Under the model, revenue is recognised when the customer obtains control of the promised good or service in the contract. Control may be transferred at a single point in time or over time. There are three situations in which control of the promised good or service is regarded as being transferred over time: • When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs; • 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; • 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 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. 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. *(continued)*

Effective date*	**Table 1 (continued): Amendments to HKFRSs first effective for annual periods beginning 1 January 2018**	
1 Jan 2018	HKFRS 15 "Revenue from contracts with customers" (continued)	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. These disclosure requirements are not specifically applicable to condensed interim financial statements, except for the requirements to disclose disaggregated revenue and significant impairment loss (or reversal of impairment loss) on assets arising from contracts with customers, which have been introduced to HKAS 34, *Interim financial reporting*. An entity may adopt HKFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application (i.e. 1 January 2018 for entities with a calendar year-end) by adjusting opening balances at that date. Transitional disclosures, which are applicable to a full set of financial statements, 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. • 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.

Effective date*	Table 1 (continued): Amendments to HKFRSs first effective for annual periods beginning 1 January 2018	
1 Jan 2018	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 Entities whose activities are predominantly connected with insurance may choose to defer the application of HKFRS 9 until 2021 (the effective date of HKFRS 17). • Overlay approach All entities 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.
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"	This interpretation provides guidance on determining "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) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency. The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of 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 date of the transaction for each payment or receipt should be determined in this way.
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 were effective since the previous annual periods and thus are not discussed below. 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.

[End of Table 1]

Effective date*	**Table 2:** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2018 but may be adopted early**	
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 (i.e. typically 1 January 2019 for entities with a calendar year-end), 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.
1 Jan 2019	Amendments to HKFRS 9 "Prepayment features with negative compensation"	The amendments require entities to measure financial assets, which have prepayment features with negative compensation, at amortised cost or at fair value through other comprehensive income (depending on the business model under which the financial assets are managed) if certain criteria are met. Under the current HKFRS 9 requirements, prepayment features with negative compensation would result in a financial asset being classified as at fair value through profit or loss. Negative compensation arises when the party effecting the prepayment in effect receives a benefit from the other party (e.g. when the prepayment amount is based on the fair value of the loan at the date of prepayment which may be less than the amount that would have been repaid at maturity). *(continued)*

Effective date*	Table 2 (continued): Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2018 but may be adopted early	
1 Jan 2019	Amendments to HKFRS 9 "Prepayment features with negative compensation" (continued)	The amendments are mandatory for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendments are required to be applied retrospectively. In order to avoid duplicating effort in classifying financial assets and updating accounting policies, we expect that entities will adopt the amendments at the same time with HKFRS 9, in which case the same transition provisions will be applied. If the amendments are not applied at the same time with HKFRS 9, specific transition provisions in the amendments will apply when the amendments are mandatorily effective in 2019.
1 Jan 2019	Amendments to HKAS 19 "Plan amendment, curtailment or settlement"	The amendments clarify that: • on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period; and • the effect of the asset ceiling cost is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
1 Jan 2019	Amendments to HKAS 28 "Long-term interest in associates and joint ventures"	The amendments will affect entities that finance their associates and joint ventures with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or "LTI"). The amendments, which address equity-accounted loss absorption by LTI, state that LTI are in the scope of both HKFRS 9 and HKAS 28 and explain the annual sequence in which both standards are to be applied. In effect, this is a three-step annual process: 1. Apply HKFRS 9 independently, ignoring any prior years' loss absorption recognised in accordance with HKAS 28. 2. True-up prior years' HKAS 28 loss allocation in the current year, if any, as the carrying value of LTI may have changed after Step 1. This may involve recognising more prior years' losses, reversing these losses or reallocating them between different LTI instruments. 3. Allocate any current year's HKAS 28 losses to the extent that the remaining LTI balances allows. Any current year's HKAS 28 profits are first to reverse any unrecognised prior years' losses and then to allocate against LTI.
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.

Effective date*	**Table 2 (continued):** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2018 but may be adopted early**	
1 Jan 2019	Annual Improvements to HKFRSs 2015-2017 Cycle - Amendments to HKFRS 3, *Business combinations* - Amendments to HKFRS 11, *Joint arrangements* - Amendments to HKAS 12, *Income taxes* - Amendments to HKAS 23, *Borrowing costs*	This cycle of annual improvements contains amendments to four standards, namely HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The amendments to HKFRS 3 and HKFRS 11 clarify whether the previously held interest in a joint operation, which is a business as defined in HKFRS 3, should be remeasured under the following scenarios: • When a joint operator obtains control over the joint operation; or • When an investor which participated in (but did not jointly control) the joint operation subsequently obtains joint control. The amendments to HKAS 12 clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity. The amendments to HKAS 23 clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.
1 Jan 2021	HKFRS 17 "Insurance contracts"	IFRS 17, which is the source of HKFRS 17, was issued by IASB on 18 May 2017 in order to set 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. IFRS 17 will replace IFRS 4, which was brought in as an interim standard in 2004 and is largely based on grandfathering previous local accounting policies. Similarly, HKFRS 17 will replace HKFRS 4, which is virtually identical to IFRS 4. Early application is permitted, provided that the entity also applies HKFRS 9 and HKFRS 15 on or before the date it first applies HKFRS 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.

[End of Table 2]

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