Illustrative Annual Financial Statements Under Hong Kong Financial Reporting Standards

December 2020

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Illustrative Annual Financial Statements under Hong Kong Financial Reporting Standards

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Contents

Abbreviations

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

Foreword

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

This Guide includes:

- an illustrative annual report for the year ended 31 December 2020 issued by a fictitious Main Board listed company, HK Listco Ltd ("HK Listco"), which includes:
  - a directors' report,
  - an independent auditor's report to the shareholders of the company,
  - annual financial statements prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, the Hong Kong Companies Ordinance and the applicable disclosure provisions of the MBLRs, and
  - a list of group properties and five year summary as required by Appendix 16 to the MBLRs, *Disclosure of financial information*;
- further information on recent developments in HKFRSs, including a brief overview of their scope and requirements;
- a table of recent IFRIC® agenda decisions, including concise summaries of IFRIC technical conclusions, starting from January 2019;
- a complete index of all HKFRSs, including their Interpretations, in issue as of 30 June 2020;
- a list of exposure drafts in issue as of 30 June 2020; and
- additional guidance on requirements applicable to non-Hong Kong incorporated entities listed in Hong Kong.

Recent financial reporting developments

Appendix B to this Guide sets out a complete list of recent developments in HKFRSs which are first effective for annual periods beginning on or after 1 January 2020, including a brief overview of these new developments. The list is current as of 30 June 2020 and contains two tables:

- table B1 lists those amendments to HKFRSs which are required to be adopted in annual accounting periods beginning on or after 1 January 2020; and
- table B2 lists other developments which are available for early adoption in that period, but are not yet mandatory.

All of these developments arise from the HKICPA adopting equivalent changes made to IFRS® Standards by the International Accounting Standards Board (the IASB® Board), word for word and with the same effective dates and transitional provisions. As of 30 June 2020, there are no recent amendments to IFRS Standards which the HKICPA has yet to adopt, except for amendments to IFRS 17, *Insurance* and amendments to IAS 1, *Classification of Liabilities as Current or Non-current*, which were issued by the IASB Board on 25 June 2020 and 23 January 2020, respectively. We expect that the HKICPA will adopt these developments in the near future.

As can be seen from these tables, there are very few changes first effective this year or next, now that the IASB Board has completed its major standard setting projects on revenue, financial instruments and leases. Of these developments, we have illustrated the following:

- Amendments to HKFRS 3, *Definition of a Business*

  The amendments to HKFRS 3 clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. In our illustrative annual report, our fictitious listed company, HK Listco, has completed an acquisition of a subsidiary during the year, where substantially all of the fair value of the gross assets acquired is concentrated in a group of similar identifiable assets. The group has elected to apply the concentration test introduced in the amendments to HKFRS 3 and accounts for such transaction as an asset acquisition rather than a business combination (see note 12).

- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

  The amendments to HKFRS 16 introduce a practical expedient to provide specific accounting relief to lessees who have benefited from rent concessions granted by lessors as a result of the COVID-19 pandemic. The amendments provide optional relief to lessees not to assess whether these rent concessions are lease modifications. In our illustrative annual report, HK Listco has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19 related rent concessions during the year. Consequently, these rent concessions have been accounted for as negative variable lease payments (see note 11(c)). There is no impact on the opening balances of equity at 1 January 2020.

Since the impact of adopting the amendments varies 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, particularly in the discussion of changes in accounting policies resulting from the amendments.

Guidance on the financial reporting impact arising from the COVID-19 pandemic

As the impact of the COVID-19 pandemic is expected to vary significantly from one entity to the next and to be particular to an entity's circumstances, this Guide does not illustrate the potential impacts of the COVID-19 pandemic on the financial statements, other than the rent concession mentioned above. Instead, markers are included throughout the financial statements to remind preparers about the potential areas of financial reporting impact arising from the pandemic and the need for tailored disclosures. For relevant guidance, see our Financial Reporting Hot Topics: Coronavirus and COVID-19 financial reporting resource centre.

In addition to considering these specific financial reporting requirements, entities should be mindful of the need for consistency between the financial statements and other parts of the annual report. In particular the business review in the Management Discussion and Analysis (MD&A) is required to include a fair review of the business, a discussion of the principal risks and uncertainties facing the entity, the particulars of important events affecting the entity that have occurred since the end of the financial year, and an indication of likely future developments in the entity's business. Entities should take care to ensure that the judgements and assumptions made about the future for financial reporting purposes take into account the risks and uncertainties identified by management and are consistent with management's discussion of the prospects of the company.

Illustrative Annual Report

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

31 December 2020

Prepared in accordance with
generally accepted accounting principles
in Hong Kong

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

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

Information for users of this illustrative annual report

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

The annual report is assumed to have been issued by a fictitious Main Board listed company, HK Listco Ltd (HK Listco) for the year ended 31 December 2020. 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. Entities applying HKFRSs for the first time in their annual financial reports will also need to consider the application of HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*, when making the transition from previous GAAP to HKFRSs[1].

The annual report illustrates the effects of certain changes that may commonly affect Hong Kong entities. However, it should not be relied upon to identify all of the significant changes that an entity may need to make as a result of the new or revised HKFRSs first effective from 1 January 2020.

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

Use of the illustrative annual report

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

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

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

References

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

The information which is only required to be disclosed in the directors' report or the financial statements of a listed company or group is highlighted by the use of black italics (see for example, the information on major customers and suppliers given on page 13).

Materiality

In accordance with paragraph 31 of HKAS 1, 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. On the other hand, an entity should consider whether it is necessary to provide disclosures in addition to those specifically required by an HKFRS in order to help users understand the impact of a particular transaction or event on the entity's financial position and financial performance.

As noted in Table B1 in Appendix B to this publication, to help companies make better materiality judgements, the IASB board has refined the definition of 'material' and issued practical guidance on applying the concept of materiality which is first effective for annual periods beginning on or after 1 January 2020.

The refined definition of 'material', which is now contained in paragraph 7 of HKAS 1, is that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". It also states that "materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole".

The amendments are intended to make the definition of 'material' (originally in HKAS 8) easier to understand and are not intended to alter the underlying concept of 'material' in IFRS Standards.

Paragraph 30A of HKAS 1 requires an entity to take into consideration all relevant facts and circumstances when an entity decides how it aggregates information in the financial statements. In particular, an entity should not reduce the understandability of its financial statements by providing immaterial information that obscures the material information in financial statements or by aggregating material items that have different natures or functions. Obscuring material information with immaterial information in financial statements will make the material information less visible and will therefore make the financial statements less understandable.

In this illustrative annual report we have included monetary amounts for the purpose of illustrating the relationship between different captions and between the primary statements and the notes, and some of these are very small amounts. These numbers are not intended to illustrate the principle of materiality and therefore these numbers, in and of themselves, should not be relied on as a guide to minimum levels of disclosure.

Compliance with International Financial Reporting Standards (IFRS Standards)

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

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

Further information on these differences between HKFRSs and IFRS Standards can be found from a detailed comparison maintained by the HKICPA on their website at www.hkicpa.org.hk under "Standards and regulation/Standards/Members' Handbook and Due Process/ Due Process/Financial reporting".

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

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

S380
C(AS(PB))R

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

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

HK Listco Ltd

香港上市有限公司

(Stock code: ●●●●)[3]

(formerly Model Electronics Company Limited)[4]

2020

Annual Report
for the year ended 31 December 2020

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

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

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

Contents

Directors' Report

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2020.

Principal place of business

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

Principal activities and business review

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

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

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

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

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

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

The cross reference illustrated here is made with reference to the example statement in Q&A 8. The HKICPA's Q&A series on the CO can be found in the HKICPA's website at www.hkicpa.org.hk/en/Standards-and-regulation/Standards/Resource-centre/Companies-Ordinance-Cap-622.

Major customers and suppliers

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

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

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

Recommended dividend[9]

C(DR)R.7 An interim dividend of 30 cents per share (2019: 30 cents per share) was paid on 18 September 2020. The directors now recommend the payment of a final dividend of 60 cents per share (2019: 55 cents per share) in respect of the year ended 31 December 2020.

CP

Change of company's name[10]

By a special resolution passed on 10 January 2021, the name of the company was changed from Model Electronics Company Limited to HK Listco Ltd and the company adopted the Chinese name 香港上市有限公司 as part of its legal name.

Charitable donations

C(DR)R.4 Charitable donations made by the group during the year amounted to HK$[•] (2019: HK$[•])[11].

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

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

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

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

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

Share capital[12]

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

A16(10)(4)

R10.06(4)(b)

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

Distributability of reserves[13]

A16(29)

At 31 December 2020, the aggregate amount of reserves available for distribution to equity shareholders of the company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance and including the distributable amounts disclosed in note 32(d)(iii) to the financial statements[14], was $205,080,000 (2019: $168,369,000). After the end of the reporting period the directors proposed a final dividend of 60 cents per ordinary share (2019: 55 cents per share), amounting to $59,700,000 (2019: $49,500,000) (note 32(b)). This dividend has not been recognised as a liability at the end of the reporting period.

S390(1), (3)

Directors

The directors during the financial year were:

Non-executive Chairman

Hon WS Tan

Executive directors

SK Ho, Chief Executive Officer
YK Ng

C(DR)R.5, 5A

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

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

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

A16(29)

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

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

In May 2010, the HKICPA issued Accounting Bulletin 4 to provide further guidance on calculating distributable profits under the predecessor Companies Ordinance. As the requirements under the predecessor Companies Ordinance have been brought forward largely unchanged to the new CO, the guidance in Accounting Bulletin 4 continues to be applicable under the new CO even though, as of the time of writing, the CO section references have not yet been updated.

PK Smith (alternate: BB Nash)
CJ Wang (appointed on 18 June 2020)
BC Tong (resigned on 31 March 2020)

Independent non-executive directors

TY Sham
YH Li
AC Man

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

AB Clark (appointed on 25 March 2021)
EF Graves (appointed on 25 March 2021)

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

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

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

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

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

S390(1), (3)-(7) 16 Under the Hong Kong Companies Ordinance (Cap. 622), which became effective for the first financial year beginning on or after 3 March 2014, the disclosure of directors' names in the directors' report of a Hong Kong incorporated company was extended to include the names of the directors of all subsidiaries included in the consolidated financial statements, if the company had prepared consolidated financial statements.

With effect from 1 February 2019, this requirement in section 390 of the Companies Ordinance has been amended, such that a company need not disclose the names of the directors of the subsidiaries in the directors' report if the criteria set out in a new sub-section, section 390(6), are complied with. These criteria are that the list of names of the directors who were directors of the company's subsidiaries during the period or in the period since the year end and up to the date of the directors' report must be continually accessible throughout the period until the next directors' report is sent to the members.

Specifically, under the new section 390(6) this list must be accessible throughout that period in at least one of the following ways:

- The list is kept at the company's registered office and is made available for inspection by the members free of charge during business hours; or
- The list is made available on the company's website.

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

So far as non-Hong Kong incorporated issuers are concerned, the requirement to disclose the names of the directors of subsidiaries in the directors' report was explicitly excluded from the level playing field requirements in the Listing Rules since 2015. This departure from the level playing field principle was explicitly stated in a footnote to paragraph 28 of Appendix 16 to the MBLRs and Rule 18.07A of the GEM Listing Rules. Therefore, non-Hong Kong incorporated issuers were neither impacted by the requirements originally introduced by Cap. 622, nor by the amendment to Cap. 622 in 2019.

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

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

The directors of the company who held office at 31 December 2020 had the following interests in the shares of the company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

(i) Interests in issued shares

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

PN5(3.2) *Notes:*

1 *The shares are registered under the names of the directors who are the beneficial shareholders.*
2 *The spouse of Hon WS Tan is the beneficial shareholder.*
PN5(4) 3 *Hon WS Tan and Mr PK Smith are beneficial shareholders of 42% and 38% respectively of the issued shares of HK (Holding) Co. Ltd which owned 52,410,000 shares in the company at 31 December 2020.*[18]
4 *Mr YK Ng is one of the trustees of HK Listco Pension Scheme which owned 90,000 shares in the company at 31 December 2020.*[19]

(ii) Interests in underlying shares

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

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

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

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

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

C(DR)R.6

Equity-linked agreements[20]

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

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

Convertible notes

On 31 December 2017, the company issued 2 tranches, Tranche A and B, of 5,000,000 convertible notes. Each tranche has a face value of HK$5,000,000 and a maturity date of 31 December 2022. The notes bear interest at [•]% per annum and are unsecured.

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

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

Notes of either tranche, in respect of which conversion rights have not been exercised, will be redeemed at face value on 31 December 2022.

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

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

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

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

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

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

Share option scheme

The company has a share option scheme which was adopted on 1 March 2016 whereby the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options to subscribe for ordinary shares of the company. *The purpose of the scheme is to provide an opportunity for employees of the group to acquire an equity participation in the company and to encourage them to work towards enhancing the value of the company and its shares for the benefit of the company and its shareholders as a whole. The share option scheme shall be valid and effective for a period of ten years ending on 28 February 2026, after which no further options will be granted.*

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

The total number of securities available for issue under the share option scheme as at 31 December 2020 was 8,000,000 shares (including options for 6,000,000 shares that have been granted but not yet lapsed or exercised) which represented 8% of the ordinary shares of the company in issue at 31 December 2020. The number of securities issued and to be issued upon exercise of the options granted to each participant in any 12-month period is limited to [•]% of the company's ordinary shares in issue.

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

At 31 December 2020, the directors and employees of the company had the following interests in options to subscribe for shares of the company (market value per share at 31 December 2020 was HK$6.70) granted for nil consideration under the share option scheme of the company[22]. As at 31 December 2020, the total grant date fair value of unexercised vested options and unvested options, measured in accordance with the accounting policy set out in note 1(w) to the financial statements, amounted to $3,450,000 and $100,000, respectively[23]. The options are unlisted. Once vested, each

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

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

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

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

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

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

option gives the holder the right to subscribe for one ordinary share of the company. Assuming that all the options outstanding as at 31 December 2020 are exercised, the company will receive proceeds of $36,250,000[23].

	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares acquired on exercise of options during the year	No. of options forfeited during the year	No. of options outstanding at the year end	Date granted	Period during which options are exercisable	Exercise price per share	Market value per share at date of grant of options*	Market value per share on exercise of options*
Directors										
YK Ng	*200,000*	*-*	*(200,000)*	*-*	*-*	*1 November 2017*	*1 November 2018 to 31 October 2020*	*HK$6.0*	*HK$6.0*	*HK$6.6*
	500,000	*-*	*(500,000)*	*-*	*-*	*1 July 2019*	*1 July 2020 to 30 June 2022*	*HK$6.0*	*HK$6.0*	*HK$6.6*
PK Smith	*800,000*	*-*	*(300,000)*	*-*	*500,000*	*1 July 2019*	*1 July 2020 to 30 June 2022*	*HK$6.0*	*HK$6.0*	*HK$6.6*
BC Tong	*200,000*	*-*	*-*	*(200,000)*	*-*	*1 July 2019*	*1 July 2020 to 30 June 2022*	*HK$6.0*	*HK$6.0*	*-*
Employees	*5,000,000*	*-*	*-*	*-*	*5,000,000*	*1 July 2019*	*1 July 2020 to 30 June 2022*	*HK$6.0*	*HK$6.0*	*-*
	-	*500,000*	*-*	*-*	*500,000*	*1 May 2020*	*1 May 2021 to 30 April 2023*	*HK$6.5*	*HK$6.5*	*-*

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

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

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

CP Apart from the foregoing, at no time during the year was the company, or any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of the acquisition of shares in or debentures of the company or any other body corporate[25].

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

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

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

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

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

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

The company has been notified of the following interests in the company's issued shares at 31 December 2020 amounting to 5% or more of the ordinary shares in issue:

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

PN5(4)

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

Sufficiency of public float

A16(34A)

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

Indemnity of directors

C(DR)R.9

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

Directors' interests in transactions, arrangements or contracts

A16(15)

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

R1

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

PN5(3.1)

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

C(DR)R.9

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

Bank loans and other borrowings

A16(22) *Particulars of bank loans and other borrowings of the group as at 31 December 2020 are set out in notes 25 to 27 to the financial statements.*

Five year summary

A16(19) *A summary of the results and of the assets and liabilities of the group for the last five financial years is set out on pages 188 and 189 of the annual report.*

Properties

A16(23) *Particulars of the major properties and property interests of the group are shown on page 187 of the annual report.*

Retirement schemes

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

Confirmation of independence

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

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

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

- if the transaction, arrangement or contract relates to the company, then it is now required to be disclosed in the financial statements (section 383(1)(e) and C(DIBD)R section 22); whereas
- if the transaction, arrangement or contract relates to the company's parent, subsidiary or fellow subsidiary (collectively referred to as "specified undertakings" in the CO), then it is still required to be disclosed in the directors' report (C(DR)R section 10).

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

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

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

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

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

Auditors

A16(30) *KPMG were first appointed as auditors of the company in 2018 upon the retirement of Wood & Co*[29]*.*

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

By order of the board

S391 F. Cullen[31]
Secretary

28 March 2021

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

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

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

S405
HKSA
700.21 & 22

CP

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

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

S406
HKSA
700.23 & 24

Opinion

We have audited the consolidated financial statements of HK Listco Ltd ("the company") and its subsidiaries ("the group") set out on pages 29 to 186, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss[34], the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position[35] of the group as at 31 December 2020 and of its consolidated financial performance[35] and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

HKSA
700.28

Basis for opinion

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

HKSA
700.30

Key audit matters

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

[*Heading: name the specific key audit matter*][36]

Refer to notes […] to the consolidated financial statements and the accounting policies on page […].

The Key Audit Matter	How the matter was addressed in our audit
[*description*] We identified [*name of specific key audit matter*] as a key audit matter because […]	Our audit procedures to […] included the following: • …

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

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

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

HKSA 700.24(c)
HKAS 1.10A

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

S406

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

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

HKSA 700.30

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

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

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

HKSA 700.32
HKSA 720.21 & 22

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

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

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

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

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

HKSA 700.33-36

Responsibilities of the directors for the consolidated financial statements

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

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

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

HKSA 700.37-40

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance

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

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

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

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

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

with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.[38]

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters

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

that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

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

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

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

HKSA 700.49 28 March 2021

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

HKAS 1.8, 10, 10A

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

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

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

HKAS 1.106

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

HKAS 1.7, 81A-82A

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

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

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

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

HKAS 1.113

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

HKAS 1.30A, 85

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

HKAS 1.85A-85B

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

HKAS 1.99

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

HKAS 2.38

When an entity classifies expenses based on function, HKAS 2 notes that the amount of inventories recognised as an expense during the period (which is often referred to as cost of sales) consists of those costs previously included in the measurement of inventory that has now been sold, and unallocated production overheads and abnormal amounts of production costs of inventories.

HKAS 1.45 & 85

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

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

Consolidated statement of profit or loss[40, 41, 42] for the year ended 31 December 2020

HKAS 1.113

(Expressed in Hong Kong dollars)

Reference		Note	2020	2019
HKAS 1.51(e)			**$'000**	$'000
HKAS 1.82(a)	**Revenue**	3	**1,084,895**	985,240
HKAS 1.99	Cost of sales[43]		**(808,507)**	(733,575)
HKAS 1.85	**Gross profit**		**276,388**	251,665
HKAS 1.85	Valuation gains on investment property		**22,980**	8,520
HKAS 1.85	Valuation losses on investment property		**(4,720)**	(2,000)
HKAS 1.85	**Net valuation gain on investment property[44]**	11	**18,260**	6,520
HKAS 1.85	Other income[45]	4	**11,119**	9,190
HKAS 1.99	Distribution costs[43]		**(62,619)**	(57,028)
HKAS 1.99	Administrative expenses[43]		**(78,689)**	(73,996)
HKAS 1.82(ba)	Impairment loss on trade receivables and contract assets[46]	33(a)	**(2,300)**	(1,720)
HKAS 1.99	Other operating expenses[43, 47]		**(16,783)**	(13,562)
HKAS 1.85	**Profit from operations**		**145,376**	121,069
HKAS 1.82(b)	Finance cost[48]	5(a)	**(20,618)**	(16,166)
HKAS 28.38	Share of profits less losses of associates		**13,830**	12,645
HKAS 1.82(c)	Share of profits of joint venture		**10,670**	10,135
HKAS 1.85	**Profit before taxation**	5	**149,258**	127,683
HKAS 1.82(d) HKAS 12.77	Income tax	6(a)	**(24,475)**	(21,335)
HKAS 1.81A(a)	**Profit for the year**		**124,783**	106,348
HKAS 1.81B(a)	**Attributable to:**			
	Equity shareholders of the company		**114,367**	96,181
HKFRS 10.B94	Non-controlling interests		**10,416**	10,167
HKAS 1.81A(a)	**Profit for the year**		**124,783**	106,348
HKAS 33.66	***Earnings per share[49]***	10		
	Basic		***$1.15***	*$0.97*
	Diluted		***$1.14***	*$0.97*

A16(4)(3)

The notes on pages 39 to 186 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 32(b)[50].

HKAS 1.82(a) 45 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 includes interest income as part of "other income". If the interest income constituted revenue, then 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.

HKAS 1.82(ba) 46 HKAS 1.82(ba) requires an entity to present impairment losses (including reversals of impairment losses or impairment gains) determined in accordance with HKFRS 9 as a single amount in the statement of profit or loss/the statement of profit or loss and other comprehensive income.

HKAS 1.82 47 In addition to the items separately presented in this illustration, paragraph 82 of HKAS 1 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:

- 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.

These items have not been illustrated as HK Listco did not have events or transactions to be reflected in those line items during the reporting period.

HKAS 1.82(b) 48 In accordance with paragraph 82(b) of HKAS 1, finance costs (including interest expense on the lease liability as stated in HKFRS 16.49) are required to be disclosed as a separate item on the face of the statement of profit or loss/the statement of profit or loss and other comprehensive income. This amount should be stated gross, i.e. it should not be net of finance income, although in our view an additional line item for "net finance costs" would be acceptable.

HKAS 33.4, 4A & 66 49 As stated in footnote 41, HKAS 1 allows entities to present comprehensive income using either a one-statement approach (i.e. a single "statement of profit or loss and other comprehensive income") or a two-statement approach (i.e. a "statement of profit or loss" together with a "statement of profit or loss and other comprehensive income"). HKAS 33, *Earnings per share*, requires the presentation of basic and diluted earnings per share in the separate statement of profit or loss if such a statement is presented or in the statement of profit or loss and other comprehensive income if an entity opts for the single-statement approach.

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

HKAS 1.IN16, 107, BC75 50 HKAS 1 does not permit an entity to disclose the amount of dividends to equity owners in either the statement of profit or loss or the statement of profit or loss and other comprehensive income. Instead, as such dividends are an owner change in equity, they are required to be reported in the statement of changes in equity or in the notes. However, as it has been common place to refer to dividends in the statement of profit or loss, we expect that users will find useful a cross reference, such as is illustrated here, to where details of the dividends can be found in the financial statements.

HKAS 1.10(b) & 51

Consolidated statement of profit or loss and other comprehensive income[40,41,51] for the year ended 31 December 2020

(Expressed in Hong Kong dollars)

Reference		Note	2020	2019
HKAS 1.113 HKAS 1.51(e)			**$'000**	$'000
HKAS 1.81A(a)	**Profit for the year**		**124,783**	106,348
HKAS 1.81A(b)	**Other comprehensive income[52] for the year (after tax[53] and reclassification adjustments[52])**	9		
HKAS 1.82A(a)	Items that will not be reclassified to profit or loss[52]:			
	Surplus on revaluation of land and buildings held for own use	11(a)	**25,152**	6,312
	Remeasurement of net defined benefit liability	28(a)(v)	**(9)**	(10)
	Equity investments at FVOCI – net movement in fair value reserves (non-recycling)[54]		**90**	50
			25,233	6,352
HKAS 1.82A(b)	Items that may be reclassified subsequently to profit or loss[52]:			
	Exchange differences on translation of:			
	- financial statements of overseas subsidiaries		**(2,173)**	1,047
	- related borrowings	33(d)(iii)	**494**	(219)
			(1,679)	828
	Cash flow hedge: net movement in the hedging reserve		**(286)**	(264)
			(1,965)	564
	Other comprehensive income for the year		**23,268**	6,916
HKAS 1.81A(c)	**Total comprehensive income for the year**		**148,051**	113,264
	Attributable to:			
HKAS 1.81B(b)	Equity shareholders of the company		**137,635**	103,097
HKFRS 10.B94	Non-controlling interests		**10,416**	10,167
HKAS 1.81A(c)	**Total comprehensive income for the year**		**148,051**	113,264

The notes on pages 39 to 186 form part of these financial statements.

HKAS 1.113 [51] Each item on the face of the statement of profit or loss and other comprehensive income shall be cross-referenced to any related information in the notes.

HKAS 1.82A [52] 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.

HKAS 1.92-94 Individual HKFRSs specify whether and when amounts that were previously recognised in other comprehensive income are reclassified to profit or loss as follows:

- Items that will not be reclassified to profit or loss:
  - changes in the revaluation surplus on items of property, plant and equipment recognised under paragraphs 39 and 40 of HKAS 16, right-of-use assets under paragraph 35 of HKFRS 16, or intangible assets under paragraphs 85 and 86 of HKAS 38;
  - remeasurements of net defined benefit liability (asset) under paragraphs 120(c), 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;
  - 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.

Reclassification adjustments are included with the related components of other comprehensive income in the period these adjustments are reclassified to profit or loss. The adjustments should be either separately disclosed on the face of the statement of profit or loss and other comprehensive income, or in the notes. In these illustrative financial statements, the reclassification adjustments are presented separately in note 9 to the financial statements, with the net amounts for each item of other comprehensive income being presented in the statement of profit or loss and other comprehensive income.

HKFRS 9.6.5.11(d) In accordance with paragraph 6.5.11(d) of HKFRS 9, when (i) a hedged forecast transaction 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 becomes a firm commitment for which fair value accounting is applied, an entity should remove that amount from the cash flow hedge reserve and include it directly in the initial carrying amount of the asset or liability (i.e. a basis adjustment). Such removal 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 [53] Entities are allowed to present the items of other comprehensive income on the face of the statement of profit or loss and other comprehensive income either (a) net of related tax effects, or (b) before related tax effects with the aggregate tax shown separately. If the alternative (b) is elected, then the "aggregate" amount should be allocated between the items that may be reclassified subsequently to profit or loss and those that will not be reclassified subsequently to profit or loss. Irrespective of the approach taken, the entity should disclose the tax amount relating to each item of other comprehensive income in the notes, to the extent that this information is not provided on the face of the statement of profit or loss and other comprehensive income.

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

[54] As explained in footnote 52, HKAS 1 requires an entity to present the items of other comprehensive income that may be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss in the statement of profit or loss and other comprehensive income. Although there are no such requirements for the statement of changes in equity, it may be useful to specify whether the fair value reserves are recycling or not.

In these illustrative financial statements, it is assumed that HK Listco only has equity instruments that are designated at FVOCI, for which the accumulated other comprehensive income will not be reclassified to profit or loss, i.e. non-recycling, and thus it has labelled the corresponding fair value reserve as such.

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

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

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

HKAS 1.10(f) [56] HKAS 1 requires entities to include a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in the financial statements, or when it reclassifies items in its financial statements. Such opening statement of financial position is required only when the retrospective application, restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period. For example, if an entity applies a new accounting policy retrospectively in its financial statements for the year ended 31 December 2020 and this retrospective application has a material effect on the financial position as at 1 January 2019, the statement of financial position should include columns to report information as at 31 December 2020, 31 December 2019 and 1 January 2019.

HKAS 1.10(f)
HKAS 1.40A-D

HKAS 1.113 [57] Each item on the face of the statement of financial position shall be cross-referenced to any related information in the notes.

HKAS 1.30A As discussed in footnote 42, an entity should take into consideration all relevant facts and circumstances in deciding how it aggregates information in the financial statements. Specifically, the entity should not reduce the understandability of the financial statements by aggregating material items that have different natures or functions. In some situations, the entity may need to disaggregate the line items in the statement of financial position and the statement of profit or loss and other comprehensive income as listed in HKAS 1 to improve the understandability of the financial statements.

HKAS 1.55 Also, an entity should present additional subtotals (i.e. in addition to those specifically required by HKFRS) in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

HKAS 1.29-30, 55, 77 [58] Entities should apply judgement in determining whether the following HKFRS 15 items 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.

HKFRS 15.128 As further explained in footnote 184, in this illustration, HK Listco aggregates capitalised contract costs with inventories as a single line item in the statement of financial position because of their similarities in nature. The closing balances of the capitalised costs are disclosed in the note under the disclosure requirements of paragraph 128 of HKFRS 15 (see note 19). 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.

HKFRS 16.47 [59] For right-of-use assets and lease liabilities, an entity can choose as an accounting policy either to present them separately in the statement of financial position or to disclose them separately in the notes. If the entity chooses not to present right-of-use assets separately in the statement of financial position, the amounts shall be presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned. In this illustration, HK Listco has chosen not to present right-of-use assets separately and therefore includes the amount of the right-of-use assets within "Other property, plant and equipment" - i.e. the same line item used to present the underlying assets of the same nature that it owns (see note 11).

HKFRS 16.48 However, the above accounting policy choice does not apply to right-of-use assets that meet the definition of investment property. These assets need to be presented as investment property in the statement of financial position.

HKAS 19.133 [60] HKAS 19, *Employee benefits*, states that it does not specify whether assets and liabilities arising from post-employment benefits should be distinguished between current and non-current portions. We interpret this to mean that there is no need to apply the current/non-current distinction to all such assets and liabilities. However, where the distinction is clear, for example for outstanding contributions to defined contribution schemes due within 12 months, the distinction should be made. Also, a note may be necessary in accordance with paragraph 61 of HKAS 1, for example as illustrated in note 28(a)(i) to these financial statements, with regard to whether any of these balances include amounts due within and after 12 months.

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

Consolidated statement of financial position[55, 56, 57, 58]

(Expressed in Hong Kong dollars)

Reference		Note	31 December 2020	31 December 2019
HKAS 1.113				
HKAS 1.51(e)			**$'000**	$'000
HKAS 1.60 & 66	**Non-current assets**			
HKAS 1.54(b)	Investment property[59]	11	**84,950**	66,690
HKAS 1.54(a)	Other property, plant and equipment[59]	11	**234,508**	201,321
			319,458	268,011
HKAS 1.54(c)	Intangible assets	12	**15,220**	14,400
HKAS 1.54(c)	Goodwill	13	**916**	1,100
HKAS 1.54(e) HKAS 28.15	Interests in associates	15	**40,308**	29,478
HKAS 1.54(e)	Interest in joint venture	16	**42,765**	32,095
HKAS 1.54(d)	Other financial assets	17	**60,930**	48,432
HKAS 1.54(o) & 56	Deferred tax assets	30(b)	**2,539**	3,495
			482,136	397,011
HKAS 1.60 & 66	**Current assets**			
HKAS 1.54(d) HKFRS 7.8(a)(ii)	Trading securities	18	**58,331**	58,020
HKAS 1.54(g)	Inventories and other contract costs[58]	19	**258,644**	218,073
HKAS 1.55 HKFRS 15.105	Contract assets[61]	20	**10,551**	23,338
HKAS 1.54(h) HKFRS 7.8(f)	Trade and other receivables	21	**79,631**	62,877
HKAS 1.54(i)	Cash and cash equivalents	22	**76,580**	105,088
			483,737	467,396
HKAS 1.60 & 69	**Current liabilities**			
HKAS 1.54(k)	Trade and other payables	24	**161,059**	143,558
HKAS 1.55 HKFRS 15.105	Contract liabilities[61]	20	**13,227**	7,173
HKAS 1.54(m) HKFRS 7.8(g)	Bank loans and overdrafts	26	**33,218**	40,314
HKAS 1.54(m) HKFRS 16.47(b)	Lease liabilities[59]	27	**21,329**	15,271
HKAS 1.54(n)	Current taxation	30(a)	**6,750**	7,244
HKAS 1.54(l)	Provisions	31	**10,900**	9,410
			246,483	222,970
	Net current assets		**237,254**	244,426
	Total assets less current liabilities		**719,390**	641,437
HKAS 1.60 & 69	**Non-current liabilities**			
HKAS 1.54(m) HKFRS 7.8(g)	Interest-bearing borrowings	25	**74,802**	72,251
HKAS 1.54(m) HKFRS 16.47(b)	Lease liabilities[59]	27	**48,963**	53,202
	Net defined benefit retirement obligation[60]	28(a)	**3,884**	3,210
HKAS 1.54(o) & 56	Deferred tax liabilities	30(b)	**19,194**	13,850
HKAS 1.54(l)	Provisions	31	**12,100**	11,251
			158,943	153,764
	NET ASSETS		**560,447**	487,673

HKFRS 15.105, HKAS 1.60, 66, 69 — 61 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. In this illustration, HK Listco determines that contract assets and contract liabilities are sufficiently material to be disclosed separately. As it expects these amounts to be realised or settled within its normal operating cycle, it separately presents them as current in the statement of financial position.

HKFRS 15.109 — HK Listco uses the terms "contract assets" and "contract liabilities" as these are used in HKFRS 15. However, 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.

		Note	31 December 2020 $'000	31 December 2019 $'000
HKAS 1.113 HKAS 1.51(e)				
HKAS 1.54(r)	**CAPITAL AND RESERVES**			
	Share capital[62]	32(c)	**181,400**	175,000
	Reserves		**296,783**	240,825
	Total equity attributable to equity shareholders of the company		**478,183**	415,825
HKAS 1.54(q) HKFRS 10.22	**Non-controlling interests**		**82,264**	71,848
	TOTAL EQUITY		**560,447**	487,673

HKAS 10.17 Approved and authorised for issue by the board of directors on 28 March 2021.

S387

Hon WS Tan[63])
SK Ho[63]) Directors

The notes on pages 39 to 186 form part of these financial statements.

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

S387(2) 63 Section 387(2) of the CO requires the financial statements to state the names of the directors who signed the statement of financial position on the directors' behalf.

HKAS 1.IN13 & 106-106A 64 Under HKAS 1, the statement of changes in equity focuses on owner changes in equity. Specifically, the standard requires the following items to be included in the statement of changes in equity, analysed by each component of equity:

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

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

HKAS 1.113 65 Each item on the face of the statement of changes in equity shall be cross-referenced to any related information in the notes.

HKAS 1.54(q) & 106(a) 66 As non-controlling interests in the equity of a subsidiary are presented as part of equity, and not as a deduction from net assets (see policy note 1(d)), they should be included in the statement of changes in equity as one of the components of total equity.

HKAS 1.10(c) & 51

Consolidated statement of changes in equity[64, 65] for the year ended 31 December 2020

(Expressed in Hong Kong dollars)

			Attributable to equity shareholders of the company									
HKAS 1.113 HKAS 1.51(e)		Note	Share capital $'000	Capital reserve $'000	Exchange reserve $'000	Property revaluation reserve $'000	Hedging reserve $'000	Fair value reserve (non-recycling)[54] $'000	Retained profits $'000	Total $'000	Non-controlling interests[66] $'000	Total equity $'000
	Balance at 1 January 2019		175,000	134	1,020	2,251	2,823	85	201,971	383,284	61,681	444,965
HKAS 1.106(d)	**Changes in equity for 2019:**											
	Profit for the year		-	-	-	-	-	-	96,181	96,181	10,167	106,348
	Other comprehensive income	9	-	-	828	6,312	(264)	50	(10)	6,916	-	6,916
HKAS 1.106(a)	Total comprehensive income		-	-	828	6,312	(264)	50	96,171	103,097	10,167	113,264
	Amounts transferred from hedging reserve[52] to initial carrying amount of hedged items	33(d)(i)	-	-	-	-	(181)	-	-	(181)	-	(181)
HKAS 1.106(d)(iii)	Dividends approved in respect of the previous year	32(b)	-	-	-	-	-	-	(45,000)	(45,000)	-	(45,000)
	Equity settled share-based transactions		-	1,625	-	-	-	-	-	1,625	-	1,625
	Dividends declared in respect of the current year	32(b)	-	-	-	-	-	-	(27,000)	(27,000)	-	(27,000)
	Balance at 31 December 2019 and 1 January 2020		175,000	1,759	1,848	8,563	2,378	135	226,142	415,825	71,848	487,673
HKAS 1.106(d)	**Changes in equity for 2020:**											
	Profit for the year		-	-	-	-	-	-	114,367	114,367	10,416	124,783
	Other comprehensive income	9	-	-	(1,679)	25,152	(286)	90	(9)	23,268	-	23,268
HKAS 1.106(a)	Total comprehensive income		-	-	(1,679)	25,152	(286)	90	114,358	137,635	10,416	148,051
	Amounts transferred from hedging reserve[52] to initial carrying amount of hedged items	33(d)(i)	-	-	-	-	(195)	-	-	(195)	-	(195)
HKAS 1.106(d)(iii)	Dividends approved in respect of the previous year	32(b)	-	-	-	-	-	-	(49,500)	(49,500)	-	(49,500)
	Purchase of own shares	32(c)(iii)	-	-	-	-	-	-	(3,390)	(3,390)	-	(3,390)
	Shares issued under share option scheme	32(c)(iv)	6,400	(400)	-	-	-	-	-	6,000	-	6,000
	Equity settled share-based transactions		-	1,658	-	-	-	-	-	1,658	-	1,658
	Dividends declared in respect of the current year	32(b)	-	-	-	-	-	-	(29,850)	(29,850)	-	(29,850)
	Balance at 31 December 2020		**181,400**	**3,017**	**169**	**33,715**	**1,897**	**225**	**257,760**	**478,183**	**82,264**	**560,447**

The notes on pages 39 to 186 form part of these financial statements.

HKAS 1.10(d) & 51

Consolidated cash flow statement[67] for the year ended 31 December 2020

(Expressed in Hong Kong dollars)

		Note	2020		2019	
HKAS 1.113 HKAS 1.51(e)			**$'000**	**$'000**	$'000	$'000
	Operating activities					
	Cash generated from operations	22(b)	**145,524**		119,799	
HKAS 7.35	Tax paid:					
	- Hong Kong profits tax paid		**(13,555)**		(11,112)	
	- Overseas tax paid		**(7,150)**		(6,950)	
HKAS 7.10	**Net cash generated from operating activities**			**124,819**		101,737
HKAS 7.21	**Investing activities**					
	Payment for the purchase of property, plant and equipment[68]		**(21,822)**		(20,760)	
	Proceeds from sale of property, plant and equipment		**749**		1,008	
	Expenditure on development project[69]		**(1,500)**		(2,400)	
HKAS 7.39	Acquisition of subsidiary, net of cash acquired	22(e)	**(1,955)**		-	
HKAS 7.37	New loans to associates		**(21,005)**		(4,205)	
HKAS 7.37	Loans repaid by associates		**11,000**		-	
	Payment for purchase of:					
	- units in bond funds		**(500)**		-	
	- equity securities		**(719)**		(100)	
	Proceeds from sale of equity securities		**2,500**		-	
HKAS 7.31	Interest received[70]		**1,363**		1,108	
HKAS 7.31 & 37	Dividends received from associates[70]		**3,000**		-	
HKAS 7.31	Dividends received from investments in securities[70]		**610**		572	
HKAS 7.10	**Net cash used in investing activities**			**(28,279)**		(24,777)
HKAS 7.21	**Financing activities**					
HKAS 7.17(e)	Capital element of lease rentals paid[68]	22(c)	**(17,071)**		(14,525)	
	Payment for repurchase of shares		**(3,390)**		-	
	Proceeds from new bank loans	22(c)	**6,100**		6,390	
	Repayment of bank loans	22(c)	**(10,480)**		(4,919)	
HKAS 7.37	Proceeds from new loans from fellow subsidiaries	22(c)	**1,759**		906	
	Proceeds from shares issued under share option scheme	32	**6,000**		-	
	Proceeds from the issue of redeemable preference shares	22(c)	**-**		4,000	
	Payment of transaction costs on issue of redeemable preference shares	22(c)	**-**		(88)	
HKAS 7.31	Interest element of lease rentals paid[68, 70]	22(c)	**(4,587)**		(3,967)	
HKAS 7.31	Other borrowing costs paid[70]	22(c)	**(19,718)**		(15,179)	
HKAS 7.31	Dividends paid on redeemable preference shares[70]	22(c) & 32	**(200)**		(200)	
HKAS 7.31	Dividends paid to equity shareholders of the company[70]	32	**(79,350)**		(72,000)	
HKAS 7.10	**Net cash used in financing activities**			**(120,937)**		(99,582)
HKAS 7(App)	**Net decrease in cash and cash equivalents**			**(24,397)**		(22,622)
	Cash and cash equivalents at 1 January	22(a)		**102,299**		122,650
HKAS 7.28	**Effect of foreign exchange rate changes**			**(2,588)**		2,271
	Cash and cash equivalents at 31 December	22(a)		**75,314**		102,299

The notes on pages 39 to 186 form part of these financial statements.

HKAS 1.113 [67] Each item on the face of the cash flow statement shall be cross-referenced to any related information in the notes.

HKFRS 16.50, HKAS 7.16(a) [68] The cash payments relating to most leases are split into (i) capital element classified within financing activities and (ii) interest element classified in accordance with the accounting policy chosen for the interest paid (see footnote 70 below). Certain exceptions are as follows:

- Variable lease payments that do not depend on an index or rate (such as turnover rent), rentals under short term leases and/or for low value assets which are expensed on a systematic basis under the recognition exemptions in HKFRS 16.5-6: these payments should continue to be classified as operating cash outflows; and

- Cash outflows to acquire right-of-use assets where the lessor is not providing any financing benefit to the lessee: HKFRS 16 and HKAS 7 are silent on how to classify such payments in the cash flow statement. However, we expect that such cash outflows will continue to be recognized as investing activities, consistent with purchases of other items of property, plant and equipment.

  The most common examples of "cash outflows to acquire right-of-use assets where the lessor is not providing any financing benefit to the lessee" is in the case of purchasing leasehold property, for example in Hong Kong or Mainland China. Commonly in such situations, the entity would pay a lump sum upfront payment to become the registered owner of the property interest, including the undivided interest in the underlying land use right. During the term of the lease no other payments would be required in respect of the leasehold interest, other than variable payments based on the property's rateable value, or other property taxes, as assessed by and payable to the relevant government authorities from time to time.

  In this illustration, HK Listco purchases a leasehold property during the year and hence aggregates the relevant cash flows with "Payment for the purchase of property, plant and equipment" under investing activities.

HKAS 7.16 [69] Including this cash out flow under "investing activities" is appropriate for HK Listco Ltd as the expenditure relates to the creation of an intangible asset (see note 12 to these illustrative financial statements). However, when the expenditure on development activities fails to meet the criteria in HKAS 38, *Intangible assets*, for recognition as an asset, then the cash flows should be classified as part of operating activities.

HKAS 7.33-34, HKFRS 16.50(b) [70] According to paragraphs 33 and 34 of HKAS 7, interest and dividends received and paid may also be classified as operating cash flows. If these cash flows are classified as arising from operating activities, they could be presented after "Cash generated from operations" and before "Net cash flows generated from operating activities", i.e., similar to the "Tax paid" caption.

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

Notes to the financial statements[71]

(Expressed in Hong Kong dollars unless otherwise indicated)[72, 73]

HKAS 1.117

1 SIGNIFICANT ACCOUNTING POLICIES[74]

(a) Statement of compliance

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

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance[75]. *These financial statements also comply with the applicable disclosure*

HKAS 1.113

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

HKAS 1.114

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

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

HKAS 21.53-57

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

HKAS 1.51(e) & 53

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

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

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

HKAS 1.117(b)

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

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

provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the group are disclosed below.

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

(b) Basis of preparation of the financial statements

HKAS 1.51(b) The consolidated financial statements for the year ended 31 December 2020 comprise the company and its subsidiaries (together referred to as the "group") and the group's interest in associates and a joint venture.

HKAS 1.117(a) The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment property, including interests in leasehold land and buildings held as investment property where the group is the registered owner of the property interest (see note 1(j);
- other freehold land and buildings, including interests in leasehold land and buildings where the group is the registered owner of the property interest (see note 1(k));
- investments in debt and equity securities (see note 1(g)); and
- derivative financial instruments (see note 1(h)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(cc)).

HKAS 1.122 & 125 The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

[*If there are material uncertainties that cast significant doubt upon the entity's ability to continue as a going concern, then these should be disclosed in accordance with HKAS 1.25-26. In addition, as noted in an agenda decision published by IFRIC in July 2014, it may also be necessary to apply the requirements of HKAS 1.122 and disclose the judgements made in concluding that there are no such material uncertainties. This may apply in so-called "close call" cases.*]

HKAS 8.28

(c) Changes in accounting policies[76, 77]

The group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the amended HKFRSs are discussed below:

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

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

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

As explained in footnote 56, HKAS 1 requires an entity to present statement of financial position information as at the beginning of the preceding period (i.e. here: 1 January 2019) whenever an accounting policy has been adopted retrospectively, an error has been corrected retrospectively or comparatives have been restated for any other reason and this retrospective application, restatement or reclassification has a material effect on the information in the opening statement of financial position for the comparative period. Care should be taken to ensure this additional statement is given whenever an accounting policy change has material effect on the opening statement of financial position for the comparative period.

77 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 the following amendments to HKFRSs that are first effective for the current accounting period of the group:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, *Interest Rate Benchmark Reform*
- Amendments to HKAS 1 and HKAS 8, *Definition of Material*
- …

None of these developments have had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period [except for the amendment to HKFRS 16, *Covid-19-Related Rent Concessions*, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications]."

The group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 January 2020. In particular, the group has elected to apply the concentration test to an acquisition during the year (see note 12).

Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*[78]

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the group during the year. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see Note 11(c)). There is no impact on the opening balance of equity at 1 January 2020.

(d) Subsidiaries and non-controlling interests

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

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

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HKFRS 16.46A & 46B

[78] The practical expedient is only available to lessees and applies only to rent concessions if, and only if, all of the following conditions are met:

- the rent concession occurred as a direct consequence of the COVID-19 pandemic;
- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

HKFRS 16.C1A, C20A & C20B

The amendment is effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted. Changes arising from applying the amendment are accounted for retrospectively, with the cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained earnings at the beginning of the annual reporting period. In the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of HKAS 8, i.e. the amount of the adjustment for each financial statement line item affected and, if HKAS 33 *Earnings per share* applies to the entity, for basic and diluted earnings per share for the current period and each prior period presented.

HKFRS 16.60A

A lessee that chooses to apply the practical expedient is required by paragraph 2 of HKFRS 16 to apply it consistently to all lease contracts with similar characteristics and in similar circumstances. In this illustration, HK Listco has early adopted this amendment and applies the practical expedient to all qualifying COVID-19-related rent concessions. This fact and the amount of COVID-19-related rent concessions recognised in profit or loss are disclosed in note 11(c). The lessee has to disclose whether it has applied the practical expedient to all COVID-19-related rent concessions. If it has not applied the expedient to all, then it needs to disclose information about the nature of the contracts to which it has applied the practical expedient. For example, a retailer may conclude that it is acceptable to apply the practical expedient consistently to all qualifying rent concessions in relation to leases of retail stores, but not other types of leases (e.g. vehicle leases).

interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income[79] as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 1(s), (t), (u) or (v) depending on the nature of the liability.

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

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

HKAS 27.17(c)

In the company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(cc))[80].

(e) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(cc)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate

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

80 As further discussed in footnote 266, under the CO the company-level statement of financial position is required to be disclosed as a note to the consolidated financial statements. Nevertheless, users may find the accounting policies in respect of investments in subsidiaries, joint ventures and associates useful information in understanding how these investments are accounted for in the company's statement of financial position. Therefore entities are recommended to disclose those accounting policies to the extent that they are relevant to the company-level statement of financial position.

or joint venture that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment (see notes 1(f) and (n)(iii)). At each reporting date, the group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the group's share of losses exceeds its interest in the associate or the joint venture, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the group's net investment in the associate or the joint venture (after applying the ECL model to such other long-term interests where applicable[81] (see note 1(n)(i)).

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

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

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

HKAS 27.17(c)

In the company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 1(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 1(cc)).[80]

[81] The amendments to HKAS 28, *Long-term interest in associates and joint ventures*, address loss absorption by entities that finance their associates and joint ventures with preference shares or with loans for which repayment is not expected in the foreseeable future but which do not form part of the investor's equity investment (referred to as long-term interests or "LTI"). The amendments 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.

(f) Goodwill

Goodwill represents the excess of

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

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

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

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

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

(g) Other investments in debt and equity securities

HKFRS 7.21

The group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

HKFRS 7.21, B5(c)

Investments in debt and equity securities are recognised / derecognised on the date the group commits to purchase / sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the group determines fair value of financial instruments, see note 33(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) Investments other than equity investments

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 (see note 1(z)(vi)).

HKFRS 7.B5(e)

- fair value through other comprehensive income (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.

- fair value at profit or loss (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.

(ii) Equity investments

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 irrevocable 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, are recognised in profit or loss as other income in accordance with the policy set out in note 1(z)(v).

HKFRS 7.21
HKFRS 7.B5(e)

(h) Derivative financial instruments

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

HKFRS 7.21

(i) Hedging[82]

The group designates certain derivatives as hedging instruments to hedge the variability in cash flows associated with highly probable forecast transactions arising from changes in foreign exchange rates and variable rate borrowings (cash flow hedges). Some borrowings are designated as hedges of the foreign exchange risk of a net investment in a foreign operation.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of any gain or loss on the derivative financial instrument is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gain or loss is recognised immediately in profit or loss.

HKFRS 9.7.2.21, 22 & 26

[82] Until the IASB Board completes its project on accounting for dynamic risk management (standards issued by the IASB Board are the sources of HKFRSs), entities have an accounting policy choice to apply the hedge accounting requirements under HKFRS 9 or to continue applying HKAS 39 hedge accounting. This policy choice should be applied to all (including both existing and new) hedging relationships. If an entity decides to apply HKFRS 9 hedge accounting requirements, it may either apply the requirements upon the initial application of HKFRS 9 or in subsequent periods as a change in accounting policy.

Regardless of whether the entity applies HKFRS 9 hedge accounting requirements upon the initial adoption of HKFRS 9 or in subsequent periods, in the first year of adoption it should follow the hedge accounting transition requirements in HKFRS 9 and provide the transitional disclosures in accordance with HKAS 8.

In these illustrative financial statements, it is assumed that HK Listco applied HKFRS 9 hedge accounting requirements upon the initial adoption of HKFRS 9 in 2018. For an illustration of the transitional disclosures, please refer to the December 2018 edition of the illustrative financial statements.

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

For all other hedged forecast transactions, the amount accumulated in the hedging reserve is reclassified from equity to profit or loss in the same period or periods during which the hedged cash flows affect profit or loss (such as when a forecast sale occurs or interest expense is recognised).

If a hedge no longer meets the criteria for hedge accounting (including when the hedging instrument expires or is sold, terminated or exercised), then hedge accounting is discontinued prospectively. When hedge accounting is discontinued, but the hedged forecast transaction is still expected to occur, the amount that has been accumulated in the hedging reserve remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the amount that has been accumulated in the hedging reserve is reclassified from equity to profit or loss immediately.

(ii) Hedge of net investments in foreign operations

The effective portion of any foreign exchange gain or loss on the borrowings is recognised in other comprehensive income and accumulated in equity in the exchange reserve until the disposal of the foreign operation, at which time the cumulative gain or loss is reclassified from equity to profit or loss. The ineffective portion is recognised immediately in profit or loss.

(j) Investment property

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

HKAS 40.75(a) Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(z)(iv).

(k) Other property, plant and equipment

HKAS 16.73(a) The following properties held for own use are stated at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation:

- freehold land and buildings; and
- interests in leasehold land and buildings where the group is the registered owner of the property interest (see note 1(m)).

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

HKAS 16.73(a) The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(n)):

- right-of-use assets arising from leases over freehold or leasehold properties where the group is not the registered owner of the property interest; and

- items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 1(m)).

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

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

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

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

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

- Freehold land is not depreciated.
- Buildings situated on freehold land are depreciated over their estimated useful life, being no more than 50 years after the date of completion.
- Leasehold land is depreciated over the unexpired term of lease.
- The group's interests in buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and the buildings' estimated useful lives, being no more than 50 years after the date of completion.
- Plant and machinery 10 years
- Others 3 - 5 years

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

(l) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(bb)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(n)). Other development expenditure is recognised as an expense in the period in which it is incurred[83].

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

HKAS 38.118(a) & (b)

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

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

Both the period and method of amortisation are reviewed annually.

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

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

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

(m) Leased assets

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

HKFRS 16.12-13 & 15

Where the contract contains lease component(s) and non-lease component(s), the group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases [other than … *name any specific class of underlying asset to which this practical expedient does not apply*][84].

HKFRS 16.12-13 & 15

[84] HKFRS 16.12 states that an entity shall account for each lease component within the contract as a lease separately from any non-lease components of the contract, unless the entity applies the practical expedient in HKFRS 16.15. This practical expedient is available only to lessees (not lessors) and allows a lessee to elect on a class-by-class basis not to separate the components and instead to account for each lease component and any associated non-lease components as a single lease component.

Common examples of a "non-lease component" would be if the contract included payments for regular maintenance activities carried out by the lessor for the benefit of the lessee, or for other goods or services such as consumable spare parts for the underlying asset or the provision of security and cleaning staff e.g. for a leased property. It could also include payments relating to the lessee's right to access to certain physical assets, where the lessor has a substantive substitution right or the portion of the asset made available to the lessee is not physically distinct and hence this component of the arrangement fails the definition of a lease per HKFRS 16.B13-B20. For example, the arrangement may cover both the rental of a specific floor in an office building and the right for a limited number of the lessee's employees' cars to park in the basement office car park, in spaces to be assigned by the landlord from time to time. In this case, the rental of the specific office floor will typically be a lease component, while the car-parking rights would be a non-lease component unless the rights were sufficient for the lessee to occupy substantially all the spaces in the car park. However, embedded derivatives that meet the criteria in paragraph 4.3.3 of HKFRS 9 are explicitly excluded from this expedient and have to be separated if HKFRS 9 requires it.

In some cases taking the practical expedient will simplify the accounting for the lessee. This will typically be when the lease is for a relatively short period of time (e.g. 2-5 years) and the difference between (i) capitalising all of the consideration and depreciating the right-of-use asset, and (ii) expensing some of the consideration as incurred and depreciating the rest, will not be worth the effort of allocating the consideration to each lease component on the basis of relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components (as required by HKFRS 16.13). It could also be the case when the payments for both components are fixed for the duration of the lease term, or are subject to review on the same dates as each other. This approach also simplifies the record-keeping by the entity for the terms of the lease.

In other cases, separating the lease component at the inception of the lease may overall be the simpler form of accounting, as well as giving better information to the user of the financial statements. This will typically be the case for longer term leases with material non-lease components, where the amount payable for the non-lease components may be subject to change on a more frequent basis than the lease components, and therefore if not separated may result in the need to apply lease modification accounting more often, which can be complex. If instead the components are separated, then the consideration for the non-lease components can continue to be expensed as incurred.

Also, separating the components will result in smaller lease liabilities and right-of-use assets than if the practical expedient is used, which may be a key factor for some entities, for example, those subject to gearing ratio covenants.

Entities should therefore consider carefully the impact of taking or not taking advantage of the practical expedient on a class-by-class basis when determining their accounting policies. Although not required, as this should be a class-by-class decision, it is best practice to explain in the policy note the situations in which the entity would or would not take advantage of the practical expedient.

As noted, this practical expedient is not available to lessors. Instead, HKFRS 16.17 states that lessors should apply paragraphs 73-90 of HKFRS 15, *Revenue from contracts with customers*, to allocate the consideration under the contract to the components.

HKFRS 16.60

At the lease commencement date, the group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the group are primarily laptops and office furniture[85]. When the group enters into a lease in respect of a low-value asset, the group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

HKFRS 16.5-8, 60

[85] HKFRS 16 provides recognition exemptions under which an entity can decide not to apply the on-balance sheet lessee accounting model to leases where the lease term is 12 months or less and/or the underlying asset is of low value. If these recognition exemptions have been applied, the entity is required to disclose this fact. In this illustration, HK Listco includes the disclosure in its policy note to indicate that it is its general policy not to capitalise short-term leases and leases of low-value assets.

The exemption categories relate to the length of the lease term and the nature of the underlying item.

A “short-term lease” is a lease that, at the commencement date, has a lease term of 12 months or less and does not contain a purchase option. The election for short-term leases for exemption from HKFRS 16 requirements shall be made by class of underlying asset to which the right of use relates. Under HKFRS 16.7, if a lease which has been classified as a short-term lease is extended, then the remaining period of the extended lease will only qualify for the short-term exemption if the new lease term, when measured as from the effective date of the modification, does not exceed 12 months. The “effective date of the modification” is defined in Appendix A to HKFRS 16 as the date when both parties agree to the modification. For example, on 1 November 2020 an entity agrees with the lessor to extend a 12 month lease, which was due to expire on 31 December 2020, for a further 6 months to 30 June 2021. In this case, the relevant period for assessing the modified lease is 8 months (1 November 2020 to 30 June 2021), and the lease can continue to qualify for the short term exemption. However, if this same lease was extended instead for a further 12 months such that it expires on 31 December 2021, then this extended lease would fail to qualify for the exemption as from 1 November 2020, as the relevant period of time would be 14 months, counted as from that date.

HKFRS 16.B3-B4

The term “low-value asset” is not explicitly defined in HKFRS 16. However, in the Basis for Conclusions the IASB Board indicated that as of the time of writing (which was in 2015) they had in mind items costing USD5,000 or less when new. This refers to the value of the item being leased when new, and not to the value of the right-of-use asset. For example, a car would not be “low-value” as it typically costs more than USD5,000 when purchased new. The assessment of whether an underlying asset is of “low value” is performed on an absolute basis. It is not affected by the size, nature or circumstances of the lessee, and an item may be assessed as “low value” regardless of whether the low-value assets in aggregate are material. Accordingly, the IASB Board expected different lessees to reach the same conclusions about whether a particular underlying asset is of low value. This recognition exemption can be elected on a lease-by-lease basis.

Entities need to keep track of these leases in order to:
- determine whether the exemption still applies, e.g. when there is a lease modification or any change in lease term; and
- be able to disclose the amounts of these lease expenses recognised in profit or loss, unless these amounts are not material.

HKFRS 16.53(c)-(d)

Specifically, paragraphs 53(c) and (d) of HKFRS 16 require entities who have applied the short-term leases and/or low value assets exemption to disclose the following amounts separately from each other:

(a) the amount of expenses relating to short-term leases which have been accounted for by applying HKFRS 16.6 (i.e. expensed systematically rather than capitalised). Per HKFRS 16.53(d) this amount need not include the expenses relating to leases with a lease term of one month or less; and

(b) the amount of expenses relating to leases of low-value assets which have been accounted for by applying HKFRS 16.6 (i.e. expensed systematically rather than capitalised), unless the amount is already disclosed as part of (a) i.e. as a short-term lease.

HK Listco has disclosed these amounts in Note 11(c).

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(k) and 1(n)(iii)), except for the following types of right-of-use asset[86]:

HKFRS 16.34-35

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 1(j); and
- right-of-use assets related to leasehold land and buildings where the group is the registered owner of the leasehold interest are carried at fair value in accordance with note 1(k); and
- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 1(o).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognised the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.[207]

HKFRS 16.34-35

[86] HKFRS 16.34-35 state that a lessee applies an alternative measurement basis in the following circumstances:

(a) when the entity has elected the fair value model for measuring investment properties under HKAS 40 *Investment Properties*, then the entity must measure any right-of-use asset that meets the definition of investment property at fair value; or

(b) when the entity applies the revaluation model to a class of property, plant or equipment under HKAS 16 *Property, plant and equipment*, then the entity may elect to apply that revaluation model to all of the right-of-use assets that relate to same class of property, plant or equipment.

HKFRS 16 does not explicitly refer to the situation when the leased asset is being held as inventory, such as in the case of leasehold land held by a property developer in Hong Kong. Consistent with the approach taken to the subsequent measurement of other right-of-use assets with reference to their use in the business, when leased assets are held as part of inventory for sale in the ordinary course of business, one of the acceptable policies for subsequent measurement would be to recognise any consumption of the lease by reference to the net realisable value of the property in accordance with HKAS 2. Alternatively, the leased assets may be depreciated from the commencement date on a straight-line basis and the depreciation charge would be expensed unless construction activities are in progress (in which case the charge would be capitalised as part of the cost of the inventory). Whichever policy is adopted, it should be applied consistently to all such leased assets held as part of inventory and from one period to the next.

(ii) As a lessor

When the group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 1(z)(iv).

When the group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the group applies the exemption described in note 1(m)(i), then the group classifies the sub-lease as an operating lease.

(n) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

HKFRS 7.21

HKFRS 7.35F

The group recognises a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables, including loans to associates and joint ventures, which are held for the collection of contractual cash flows which represent solely payments of principal and interest);
- contract assets as defined in HKFRS 15 (see note 1(p));
- debt securities measured at FVOCI (recycling);
- lease receivables; and
- loan commitments issued, which are not measured at FVPL[87].

Other financial assets measured at fair value, including units in bond funds, equity and debt 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.

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;

HKFRS 9.BCZ2.2

[87] 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.

- 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[88].

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[89]. 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[90]. The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

HKFRS 9.B5.5.48 — 88 An entity can reflect risks specific to the cash flows in either the discount rate or the cash shortfalls being discounted.

HKFRS 9.5.5.15 — 89 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.

HKFRS 7.35F(b)
HKFRS 9.B5.5.37 — 90 HKFRS 7.35F(b) requires an entity to disclose its definitions of default, including the reasons for selecting those definitions.

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.

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[91];
- 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[92].

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

HKFRS 7.35F(d)

Basis of calculation of interest income

Interest income recognised in accordance with note 1(z)(vi) 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;

HKFRS 9.5.5.11

91 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

92 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.

- a breach of contract, such as a default or past due event;
- 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.

(ii) Credit losses from financial guarantees issued

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

Financial guarantees issued are initially recognised within "trade and other payables"[93] at fair value, which is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss[94].

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 (see note 1(z)(viii)).

93 In these illustrative financial statements, HK Listco presents the balance of financial guarantees issued 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.

94 HKFRS 9 does not contain any specific guidance as to where the debit entry arising from the initial recognition of a financial guarantee contract should be recorded. In the absence of any cash consideration or promise to pay cash or other financial assets, the debit would generally be recorded as a day-one expense unless recognition as another form of asset can be justified. For example:

(a) In the case of the guarantee issued in respect of a loan to a director, which is conditional on the director remaining with the company, the asset identified could be a prepayment of employee benefits-in-kind as illustrated in note 23. This asset is amortised over the same period as the deferred income from issuing the guarantee.

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

HKFRS 7.B8E

The group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs 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 1(n)(i) 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 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[88].

(iii) Impairment of other non-current assets

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

- property, plant and equipment, including right-of-use assets (other than property carried at revalued amounts);
- intangible assets;
- goodwill; and
- investments in subsidiaries, associates and joint ventures in the company's statement of financial position.

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

- Calculation of recoverable amount

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

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

(iv) Interim financial reporting and impairment

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

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(o) Inventories and other contract costs

HKAS 2.36(a) (i) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value as follows:

- Electronic manufacturing

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

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

- Property development

  Cost and net realisable values are determined as follows:

  - Property under development for sale

    The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of interests in freehold and leasehold land[86], aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 1(bb)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

  - Completed property held for resale

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

In the case of completed properties developed by the group which comprise of multiple units which are sold individually, the cost of each unit is determined by apportionment of the total development costs for that development project to each unit on a per square foot basis, unless another basis is more representative of the cost of the specific unit. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

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

(ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory (see note 1(o)(i)), property, plant and equipment (see note 1(k)) or intangible assets (see note 1(l)).

Incremental costs of obtaining a contract are those costs that the group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered[95]. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labour, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because the group entered into the contract (for example, payments to sub-contractors). Other costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Impairment losses are recognised to the extent that the carrying amount of the contract cost asset exceeds the net of (i) remaining amount of consideration that the group expects to receive in exchange for the goods or services to which the asset relates, less (ii) any costs that relate directly to providing those goods or services that have not yet been recognised as expenses.

Amortisation of capitalised contract costs is charged to profit or loss when the revenue to which the asset relates is recognised. The accounting policy for revenue recognition is set out in note 1(z).

HKFRS 15.3, 94, BC297

95 HKFRS 15.94 states that as a practical expedient, an entity may recognise the incremental costs of obtaining a contract as an expense when incurred if the amortisation period of the asset that the entity would otherwise have recognised is one year or less. Paragraph BC297 of the Basis of Conclusions to HKFRS 15 states that the IASB Board allowed this practical expedient as the IASB Board acknowledged that in some cases the entity's efforts to recognise an asset from incremental acquisition costs might exceed the financial reporting benefits. As with other practical expedients in HKFRS 15, an entity should apply the practical expedient consistently to similar contracts in similar circumstances.

In this illustration, HK Listco applies the practical expedient to costs of obtaining contracts that would be fully amortised in the period they arise if they had been capitalised. For contract costs relating to goods or services that will be transferred to the customers in the next reporting period(s), HK Listco capitalises such costs in order to match the timing of recognising the costs in profit or loss with the timing of transfer of the related goods or services.

For example, HK Listco has capitalised sales commissions incurred when customers entered into sale & purchase agreements for properties which are expected to be still under construction at 31 December 2020. These sales commissions may have been incurred in 2020 or in previous years as pre-completion sales programmes in Hong Kong for multi-unit property developments can begin up to 30 months before expected completion of the properties. Regardless of when the commissions were incurred, the recognition of the related revenue on such multi-unit property development projects will generally occur within a short period of time as and when the construction of the apartment block is completed and the units are legally assigned to the buyers.

In such a case, taking advantage of the practical expedient could materially distort the pattern of profit recognition and add to record-keeping complexity for the developer, as some of the earlier commissions incurred under the pre-completion sales programme would need to be capitalised, while those relating to sales contracts entered into within 12 months of the expected completion date of the property could be expensed as incurred under the practical expedient. HK Listco has therefore decided not to take advantage of the practical expedient for costs related to these types of pre-completion sales contracts, and therefore capitalises all such commissions. These capitalised selling commissions will need to be disclosed in accordance with HKFRS 15.128, as illustrated in note 19(c).

As HK Listco asserts that it has taken advantage of the practical expedient for other selling costs, this fact will need to be disclosed in accordance with HKFRS 15.129. This is also illustrated in note 19(c).

If an entity considers that it is more cost effective to apply the practical expedient to all contracts and therefore only capitalises the costs of obtaining contracts with amortisation period longer than one year, the following is an example wording for describing such policy:

"Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer……

Incremental costs of obtaining a contract are those costs that the group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained e.g. an incremental sales commission. Incremental costs of obtaining a contract are capitalised when incurred if the costs 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 costs are expensed when incurred. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if……."

HKFRS 15.105-109

96 This description of a contract asset, contract liability and receivable is based on the specific requirements relating to presentation set out in paragraph 105 to 109 of HKFRS 15. According to paragraph 109 of HKFRS 15, an entity is not prohibited from using alternative descriptions for these items provided that sufficient information is given to the reader of the financial statements to enable them to distinguish between a contract asset and a receivable. Please refer to footnote 191 for discussion about the differences between contract assets, receivables, contract liabilities and payables.

(p) Contract assets and contract liabilities[96]

A contract asset is recognised when the group recognises revenue (see note 1(z)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(n)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(q)).

A contract liability is recognised when the customer pays non-refundable consideration before the group recognises the related revenue (see note 1(z)). A contract liability would also be recognised if the group has an unconditional right to receive non-refundable consideration before the group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(q)).

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.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 1(z)).

HKFRS 7.21

(q) Trade and other receivables

A receivable is recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(p)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(n)(i)).

HKAS 7.46
HKFRS 7.21

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 1(n)(i).

HKFRS 7.21

(s) Trade and other payables

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

HKFRS 7.21

(t) Preference share capital

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

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

HKFRS 7.21

(u) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the group's accounting policy for borrowing costs (see note 1(bb)).

HKFRS 7.21

(v) Convertible notes

(i) Convertible notes that contain an equity component

Convertible notes that can be converted into ordinary shares at the option of the holder, where the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured at fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible notes as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the notes are converted or redeemed.

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

(ii) Other convertible notes

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

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

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

If the notes are converted, the shares issued are measured at fair value and any difference between the fair value of shares issued and the carrying amounts of the derivative and liability components are recognised in profit or loss. If the notes are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

HKAS 7.46
HKFRS 7.21

(w) Employee benefits

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

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

(ii) Defined benefit retirement plan obligations

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

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

When the benefits of a plan are changed, or when a plan is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

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

R17.08 (iii) Share-based payments

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

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

(iv) Termination benefits

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

(x) Income tax

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

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

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

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

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

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

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

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

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

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

(y) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

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

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

(ii) Onerous contracts

An onerous contract exists when the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(iii) Contingent liabilities assumed in business combinations

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

(z) Revenue and other income

Income is classified by the group as revenue when it arises from the sale of goods, the provision of services or the use by others of the group's assets under leases in the ordinary course of the group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less[97].

Further details of the group's revenue and other income recognition policies are as follows:

HKFRS 15.119, 124, 126

(i) Sale of electronics products

Sales of the group's electronics products are recognised as follows:

- Made-to-order manufacturing arrangements

  The group classifies contracts as made-to-order manufacturing arrangements when 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.

  Revenue arising from made-to-order manufacturing arrangements, and a corresponding contract asset (see note 1(p)), are recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. The contract asset (either partially or in full) is reclassified to receivables when the entitlement to payment for that amount has become unconditional (see note 1(q)).

- Sales of other electronic products

  Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

HKFRS 15.63 &129 [97] HKFRS 15.63 gives a practical expedient such that an entity need not adjust the amount of consideration for the effects of a significant financing component if the entity expects, at contract inception, that the period between the transfer of goods or services and customer payment will be one year or less. If this practical expedient has been applied, the entity is required to disclose this fact. In this illustration HK Listco includes the disclosure in its policy note to indicate that it is its general policy not to consider whether a significant financing component exists if the period of credit is one year or less.

HKFRS 15.119, 125, 126

(ii) Sale of properties[98]

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when 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. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities (see note 1(p)).

When residential properties are marketed by the group while the property is still under construction, the group may offer a discount compared to the listed sales price, provided the customer agrees to pay the balance of the consideration early. In such cases, if the advance payments are regarded as providing a significant financing benefit to the group, interest expense arising from the adjustment of time value of money will be accrued by the group during the period between the payment date and the completion date of legal assignment. This accrual increases the balance 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*, in accordance with the policies set out in note 1(bb).

HKFRS 15.119, 124, 126

(iii) Construction contracts

A contract with a customer is classified by the group as a construction contract when the contract relates to work on real estate assets under the control of the customer and therefore the group's construction activities create or enhance an asset under the customer's control.

When the outcome of a construction contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs.

The likelihood of the group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

If at any time the costs to complete the contract are estimated to exceed the remaining amount of the consideration under the contract, then a provision is recognised in accordance with the policy set out in note 1(y)(ii).

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[98] The wording of this accounting policy is only relevant where the nature of the entity's property development activities is such that revenue is only recognised on the activity at a single point in time, rather than continuously as construction progresses, even when the entity has entered into a pre-completion sales agreement. The wording should be tailored when the nature of an entity's property development activities and contracts with customers indicate that a different recognition policy would be appropriate for some or all of the property development activities. In addition, disclosure of the judgements made by the entity in applying such different policies may be appropriate under paragraph 122 of HKAS 1 (for example, in the entity's equivalent of note 2(a) to these illustrative financial statements).

HKFRS 16.81

(iv) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(v) Dividends

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

(vi) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(n)(i)).

HKAS 20.39(a)

(vii) Government grants

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

(viii) Income from financial guarantees issued

Income from financial guarantees issued is recognised over the term of the guarantees (see note 1(n)(ii)).

(aa) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

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

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

(bb) Borrowing costs

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

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

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

(i) Non-current assets held for sale

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

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

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the group and the company are concerned[99] are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

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

(ii) Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

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

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

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

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

(dd) Related parties[100]

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

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

(ii) has significant influence over the group; or

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

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

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

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

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

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

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

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

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

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

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

(ee) Segment reporting

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

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

HKAS 24.9, BC 51

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

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

2 ACCOUNTING JUDGEMENT AND ESTIMATES

HKAS 1.122

(a) Critical accounting judgements in applying the group's accounting policies[101]

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

Classification of interests in leasehold land and buildings held for own use

In accordance with HKAS 16, *Property, plant and equipment*, the group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the group as separate classes of asset for subsequent measurement policies in accordance with notes 1(k) and (m). Specifically, registered ownership interests are carried under the revaluation model, while rights to use properties under tenancy agreements are carried at depreciated cost.

HKAS 1.122-124

[101] HKAS 1 requires an entity to disclose, in the summary of significant accounting policies or other notes, the judgements, apart from those involving estimations (see footnote 102), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. As illustrated here, this disclosure extends the more generic policy descriptions that are found in note 1 to explain, how, in particular circumstances, those policies were applied during the period. Management will need to exercise judgement in determining which such circumstances warrant additional disclosure as being those "that have the most significant effect on the amounts recognised in the financial statements" and may need to update the disclosure from one year to the next. Further examples, depending on the significance to the entity, might include decisions made during the period as to whether or not certain circumstances during the period indicated that it was appropriate to suspend interest capitalisation on a development project that had been delayed or whether the entity was acting as an agent or a principal in an arrangement.

HKFRS 12.7-9

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

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

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

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

HKFRS 15.123-126

HKFRS 15 also contains extensive disclosure requirements about significant judgements and assumptions an entity has made (and changes to those judgements and assumptions) in determining:

- the timing of satisfaction of performance obligations; and
- the transaction price and the amounts allocated to performance obligations.

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

HKFRS 16.35

The accounting judgement illustrated here arises from the requirement in HKFRS 16.35 which states that if right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in HKAS 16, a lessee may elect to apply that revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment. A "class of asset" is defined in HKAS 16.37 as a grouping of assets of a similar nature and use in an entity's operations.

In making this judgement, the group has taken into account that, as the registered owner of a leasehold property, the group is able to benefit fully from any changes in the valuation of these properties whether as holding gains or by selling the property interest to others, as well as being able to use the properties in its operation free of paying market rents. In contrast, the shorter term tenancy agreements are typically for periods of no more than 10 years and are subject to other restrictions, in particular on transferability of the group's tenancy rights to others. These shorter term tenancy agreements are executed in order to retain operational flexibility and to reduce the group's exposure to the property market fluctuation. They may contain termination or extension clauses, and/or variable rental payment clauses linked to the level of sales generated by the group's use of the premises, and are typically subject to market rent reviews every [•] to [•] years.

[*Consider whether any significant judgements have been made in relation to the financial reporting implications of the COVID-19 pandemic, including significant judgements made in the application of HKFRS 15, and give further details in accordance with HKAS 1.122 and HKFRS 15.123-126*.]

HKAS 1.125

(b) Sources of estimation uncertainty[102]

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

(i) Revenue recognition

As explained in policy note 1(z), revenue from sales of electronic products manufactured under made-to-order arrangements and from construction contracts are recognised over time. Such revenue and profit recognition on uncompleted projects is dependent on estimating the total outcome of the contract, as well as the work done to date.

Based on the group's recent experience and the nature of the manufacturing and construction activities undertaken by the group, the group has made estimates of the point at which it considered the work was sufficiently advanced such that the outcome of the contract can be reasonably measured. Until this point is reached the related contract assets disclosed in note 20 do not include profit which the group might eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

(ii) Warranty provisions

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

HKAS 1.125-133

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

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

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

(iii) Determining the lease term

As explained in policy note 1(m), the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the group, the group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

[*Consider whether there have been any estimation uncertainties arising as a result of the COVID-19 pandemic, and give further details in accordance with HKAS 1.125.*]

3 REVENUE *AND SEGMENT REPORTING*[103]

(a) Revenue[104]

HKAS 1.138(b) The principal activities of the group are the manufacturing and sale of electronic products, property development, property investment and carrying out construction activities for others. *Further details regarding the group's principal activities are disclosed in note 3(b).*

[*Consider whether additional information needs to be disclosed as a result of the impact of the COVID-19 pandemic on the entity's contracts with its customers, and give further details in accordance with HKFRS 15.110-129, including changes in the timeframe for revenue expected to be recognised in the future.*]

(i) Disaggregation of revenue[104, 105]

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

		2020	2019
HKFRS 15.114		**$'000**	$'000
HKFRS 15.113(a)	**Revenue from contracts with customers within the scope of HKFRS 15**[106]		
HKFRS 8.32	Disaggregated by major products or service lines		
	- Sales of electronic products	**945,776**	840,437
	- Sales of completed properties	**105,192**	120,766
	- Revenue from construction contracts	**25,392**	17,826
		1,076,360	979,029
HKFRS 15.113(a)	**Revenue from other sources**[106]		
HKAS 40.75(f)(i)	Gross rentals from investment properties		
	- Lease payments that are fixed or depend on an index or a rate	**6,200**	4,400
HKFRS 16.90(b)	- Variable lease payments that do not depend on an index or a rate	**2,335**	1,811
		8,535	6,211
		1,084,895	985,240

HKFRS 8.3 [103] HKFRS 8 applies primarily to entities whose debt or equity securities are listed or quoted in a public market). Entities that fall outside the scope of HKFRS 8 may provide information about segments on a voluntary basis. However, if this information does not comply fully with HKFRS 8, then, as per paragraph 3 of HKFRS 8, this information should not be described as "segment information". In HK Listco's financial statements we have included the information on the entity's products and services and major customers in note 3(a) "Revenue" (see footnote 104) and the other segmental disclosures are included in note 3(b) "Segment reporting". Other approaches to disclosing this information are acceptable provided they meet the basic disclosure requirement of paragraph 113 of HKAS 1, to present notes in a systematic manner.

104 Revenue, as defined in Appendix A of HKFRS 15, is income that arises in the course of the ordinary activities of an entity. Other income, i.e. income that does not arise in the course of the ordinary activities of the entity, is reported separately from revenue. For this reason, HK Listco has included rental income from investment properties within its measure of revenue, as holding properties for rental to others is regarded as one of the group's ordinary activities, while income from other investments is disclosed in note 4 as "Other income".

HKFRS 15.114, B89

105 HKFRS 15.114 requires an entity to 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. 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 paragraph 114 of HKFRS 15 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.

HKFRS 8.31-34

Entities who are listed are required to provide some disaggregated revenue information as HKFRS 8 requires disclosure of certain information about an entity's products and services, geographical areas and major customers, even if the entity has only one reportable segment. These minimum disclosures, referred to as "entity-wide disclosures" in HKFRS 8, should be based on the financial information that is used to produce the entity's financial statements (i.e. the disclosure is not based on the management approach, which is otherwise used in disclosing segment information). The disclosures are required only if they are not provided as part of the reportable segment information required by HKFRS 8.

HKFRS 15.112 states that an entity need not disclose information in accordance with HKFRS 15 if it has provided the information in accordance with another standard. Therefore, it is a question of judgement as to what extent the HKFRS 8 and HKFRS 15 disclosures should be presented together.

In this illustration, HK Listco's financial statements included information on the entity's products and services and major customers in note 3(a) "Revenue", while additional geographic information was being provided in the segment analysis and additional entity-wide disclosures in note 3(b) "Segment reporting" in order to satisfy HKFRS 8. For the purposes of satisfying HKFRS 15, in the segment disclosure table in note 3(b), HK Listco has provided the analysis of revenue in each segment between those contracts where revenue is recognised at a point in time and those where revenue is recognised over time.

Other approaches to disclosing this information are acceptable provided they meet the basic disclosure requirement of paragraph 113 of HKAS 1, to present notes in a systematic manner.

HKFRS 15.115

In addition, if an entity applies HKFRS 8, HKFRS 15.115 requires sufficient information to be disclosed to enable users of the financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment. In HK Listco's financial statements:

- the narrative descriptions of the various segments in note 3(b) help the reader to reconcile the entity-wide disclosures given by product and service in note 3(a) with the segment information in the segment disclosure table in note 3(b); and
- both the separate line items and totals in the segment disclosure table and the reconciliation in note 3(b)(ii) show the reader that the only differences between segment revenue and reported revenue arise due to the inclusion of inter-segment sales in the segment analysis.

As this information is considered sufficient to enable users of the financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment, no additional information has been illustrated to specifically satisfy HKFRS 15.115.

HKFRS 15.113(a), HKFRS 16.90(b)

106 HKFRS 15.113(a) requires revenue recognised from contracts with customers and from other sources to be disclosed separately, either in the statement of comprehensive income or in the notes. In effect, this means that for the purposes of satisfying this disclosure requirement, an entity's revenue should be split between that which falls within the scope of HKFRS 15 and that which falls under other financial reporting standards. This is illustrated here by disclosing rental income from investment property separately from the group's other revenue, as rental income arising under leases falls within the scope of HKFRS 16, *Leases*, rather than HKFRS 15. The income has been further analysed between variable lease payments that do not depend on an index or a rate and other lease income as required by HKFRS 16.90(b).

HKFRS 15.112

107 As allowed by HKFRS 15, an entity need not disclose information in accordance with HKFRS 15 if it has provided the information in accordance with other standards.

In this illustration, the information about geographical location of revenue from external customers provided under HKFRS 8 (see note 3(b)(iii)) also satisfies the disclosure requirement in paragraph 114 of HKFRS 15 for disaggregation of revenue. Hence, HK Listco has made cross reference to the corresponding note.

HKFRS 15.114

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 3(b)(i) and 3(b)(iii)[107] respectively.

HKFRS 8.34

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the group's revenues. In 2020 revenues from sales of electronic products to this customer, including sales to entities which are known to the group to be under common control with this customer, amounted to approximately $126 million (2019: $108 million) and arose in all three geographical regions in which the electronics division is active[108]. Details of concentrations of credit risk arising from this customer are set out in note 33(a)[109].

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

HKFRS 15.120

As at 31 December 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the group's existing contracts is $180,556,000 (2019: $113,333,000). This amount represents revenue expected to be recognised in the future from pre-completion sales contracts for properties under development, made-to-order manufacturing contracts and construction contracts entered into by the customers with the group. This amount includes the interest component of pre-completion properties sales contracts under which the group obtains significant financing benefits from the customers (see note 1(z)(ii)). The group will recognise the expected revenue in future when or as the work is completed or, in the case of the properties under development for sale, when the properties are assigned to the customers, which is expected to occur over the next 12 to 36 months (2019: next 12 to 36 months).[110]

HKFRS 8.34 & BC58

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

HKFRS 7.34(c) & B8

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

HKFRS 15.120

110 HKFRS 15.120 requires the amount of the transaction price allocated to the remaining performance obligations to be disclosed. It also requires an explanation to be disclosed of when the entity expects to recognise this revenue. This explanation can be either disclosed quantitatively, using time bands that would be most appropriate for the duration of the remaining performance obligations, or disclosed using qualitative information.

In this illustration, HK Listco has provided such explanation by providing a qualitative explanation. An alternative approach would have been to provide a numerical analysis, for example by one year time bands. The information could also be further disaggregated between different categories of revenue to enable users of financial statements to better understand the nature, amount, timing and uncertainty of revenue and cash flows.

HKFRS 15.121-122 The group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for electronic products such that the above information does not include information about revenue that the group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of electronic products that had an original expected duration of one year or less.[111]

HKFRS 15.122 The above amount also does not include any amounts of completion bonuses that the group may earn in the future by meeting the conditions set out in the group's construction contracts with customers, unless at the reporting date it is highly probable that the group will satisfy the conditions for earning those bonuses.

(b) Segment reporting[112]

HKFRS 8.20 & 22, HKFRS 15.115 *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[112], the group has presented the following six reportable segments[113]. No operating segments have been aggregated to form the following reportable segments[114].*

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

HKFRS 15.121-122 [111] HKFRS 15.121 states that, as a practical expedient an entity need not disclose the information required by HKFRS 15.120 for a performance obligation if either of the following conditions is met:
(a) the performance obligation is part of a contract that has an original expected duration of one year or less; or
(b) the entity applies the practical expedient in HKFRS 15.B16 such that it recognises revenue at the amount to which it has a right to invoice, which corresponds directly to the value to the customer of the entity's performance completed to date (e.g. a service contract in which the entity bills a fixed amount for each hour of service provided).

An entity should explain qualitatively whether it has applied the practical expedient in HKFRS 15.121 in providing the information required by HKFRS 15.120.

HKFRS 15.3 As with the other practical expedients in HKFRS 15, this practical expedient should be applied consistently to similar contracts in similar circumstances. In this illustration, HK Listco applies this practical expedient only to its sales contracts for electronic products.

HKFRS 8.IN11

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

HKFRS 8.7

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

HKFRS 8.1

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

HKFRS 15.115

If an entity discloses information under HKFRS 8, HKFRS 15 requires the entity to disclose sufficient information to enable users of the financial statements to understand the relationship between the disclosure of disaggregated revenue disclosed in accordance with HKFRS 15 (i.e. as illustrated in note 3(a)) and the revenue information disclosed for each reportable segment. HK Listco does this by identifying which products and services are included in which segment in this narrative description and by giving numerical break-down of segment revenue from external customers into point in time and over time in the segment analysis table (i.e. as illustrated in note 3(b)(i)). Other approaches may also be sufficient to satisfy this disclosure requirement.

HKFRS 8.12

[114] Material operating segments that are identified in the internal reports that an entity's CODM reviews may only be aggregated for the purposes of reporting segment information in the financial statements if aggregation is consistent with the core principle in HKFRS 8 (as set out in paragraph 1 of HKFRS 8), the segments have similar economic characteristics and those segments are similar in each of the characteristics set out in paragraph 12 of HKFRS 8. If these criteria are met, then aggregation is allowed but not required i.e. management may choose not to aggregate and could therefore instead present information to users as it is presented internally to the CODM. As also mentioned in footnote 115 below, "whether segments have been aggregated" is identified as one of the items of "general information" about factors used to identify reportable segments that should be disclosed in accordance with paragraph 22 of HKFRS 8. When segments have been aggregated, judgement made by management in applying the aggregation criteria is also required to be disclosed.

HKFRS 8.25 & 26

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

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

HKFRS 8.22(a)

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

HKFRS 8.22(aa)

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

HKFRS 8.27

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

HKFRS 8.28

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

(i) *Segment results, assets and liabilities*[115]

HKFRS 8.27(c) & (d)

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

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

HKFRS 8.27(b) & (f)

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

HKFRS 8.27(b)

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

HKFRS 8.27(a)

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

Disaggregation of revenue from contracts with customers by the 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 years ended 31 December 2020 and 2019 is set out below[116].

		Electronics – Hong Kong		Electronics – South East Asia		Electronics – Rest of the world		Property development		Construction contracts[117]		Property leasing		Total	
		2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
HKFRS 15.114, 115	**Disaggregated by timing of revenue recognition[104, 105, 113]**														
	Point in time	**531,079**	449,424	**119,097**	95,388	**200,002**	201,610	**105,192**	120,766	**-**	-	**-**	-	**955,370**	867,188
	Over time	**79,357**	78,953	**16,241**	15,062	**-**	-	**-**	-	**25,392**	17,826	**8,535**	6,211	**129,525**	118,052
HKFRS 8.23(a)	**Revenue from external customers**	**610,436**	528,377	**135,338**	110,450	**200,002**	201,610	**105,192**	120,766	**25,392**	17,826	**8,535**	6,211	**1,084,895**	985,240
HKFRS 8.23(b)	Inter-segment revenue	**104,109**	103,907	**1,251**	928	**-**	-	**-**	-	**-**	-	**-**	-	**105,360**	104,835
	Reportable segment revenue	**714,545**	632,284	**136,589**	111,378	**200,002**	201,610	**105,192**	120,766	**25,392**	17,826	**8,535**	6,211	**1,190,255**	1,090,075
HKFRS 8.23	**Reportable segment profit (adjusted EBITDA)**	**109,975**	97,624	**20,897**	18,847	**19,255**	16,385	**29,924**	28,230	**14,982**	13,162	**25,420**	11,694	**220,453**	185,942
HKFRS 8.23(c)	Interest income from bank deposits[118]	**301**	592	**61**	73	**189**	264	**-**	-	**-**	-	**-**	-	**551**	929
HKFRS 8.23(d)	Interest expense	**(13,155)**	(10,540)	**(2,850)**	(1,750)	**-**	-	**(1,076)**	(1,002)	**-**	-	**(1,250)**	(1,400)	**(18,331)**	(14,692)
HKFRS 8.23(e)	Depreciation and amortisation for the year	**(24,409)**	(19,328)	**(2,735)**	(2,148)	**-**	-	**(5,765)**	(5,071)	**(553)**	(480)	**(560)**	(490)	**(34,022)**	(27,517)
HKAS 36.129 & HKFRS 8.23(i)	Impairment of non-current assets														
	- plant and machinery	**-**	-	**-**	-	**-**	-	**(1,200)**	-	**-**	-	**-**	-	**(1,200)**	-
	- goodwill	**(184)**	-	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(184)**	-
HKFRS 8.23(i)	Impairment losses on trade receivables and contract assets	**(1,520)**	(1,030)	**(255)**	(180)	**(510)**	(430)	**-**	-	**(15)**	(80)	**-**	-	**(2,300)**	(1,720)
HKFRS 8.23 HKFRS 8.24(a)	**Reportable segment assets**	**386,865**	354,245	**35,344**	26,900	**44,074**	41,050	**148,674**	140,527	**94,288**	88,540	**88,091**	69,036	**797,336**	720,298
	(including interest in joint venture)[119]	**-**	-	**-**	-	**-**	-	**-**	-	**42,765**	32,095	**-**	-	**42,765**	32,095
HKFRS 8.24(b)	Additions to non-current segment assets during the year[119]	**35,035**	30,835	**1,700**	-	**-**	-	**6,621**	6,679	**1,371**	988	**-**	-	**44,727**	38,502
HKFRS 8.23	**Reportable segment liabilities**	**200,154**	187,276	**48,982**	44,617	**33,470**	29,490	**62,854**	65,652	**594**	1,067	**10,154**	10,164	**356,208**	338,266

HKFRS 8.23 [116] HKFRS 8 requires an entity to report a measure of profit or loss for each reportable segment. It also includes the following disclosure requirements:

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

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

HKAS 7.50(d) In addition to the disclosure of segment results required by HKFRS 8, HKAS 7 encourages the disclosure of additional information about the amount of cash flows arising from the operating, investing and financing activities of each reportable segment. Although not explicitly stated in HKAS 7, we presume that such information should only be disclosed on a segment basis if such information is included in the information reported internally to the CODM.

HKFRS 8.16 & 6 [117] In this illustration it is assumed that the construction contracts activity is separately identified as an operating segment in information provided internally to the CODM and that management has decided that it would be useful information to disclose this segment separately. If instead management had decided that the "construction contracts" segment was not sufficiently material to be regarded as a reportable segment, it could have labelled the amounts relating to this segment (and any other immaterial operating segments) as relating to "all other segments" in accordance with paragraph 16 of HKFRS 8. However, given that in HK Listco's assumed circumstances "construction contracts" is separately identified as an operating segment in information provided to HK Listco's CODM, it would not have been acceptable to simply include these amounts in the "unallocated amounts" disclosed in the reconciliation under paragraph 28 of HKFRS 8. Where an "all other segments" category is presented, the sources of revenue in this category should be described (HKFRS 8.16).

HKFRS 8.23 [118] In respect of the disclosure of segment interest revenue and interest expense, an entity should report interest revenue separately from interest expense for each reportable segment (assuming this information is reported to and used by the CODM) unless a majority of the segment's revenues are from interest and the CODM relies primarily on net interest revenue in making decisions about the segment (e.g. if the segment is a financial services segment). In that situation, the entity may report that segment's interest revenue net of interest expense and disclose that it has done so.

HKFRS 8.24 [119] An entity should disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by the CODM or are otherwise regularly provided to the CODM even if not included in the measure of segment assets:

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

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

HKFRS 8.28(a)

	2020	*2019*
Revenue	**$'000**	*$'000*
Reportable segment revenue	**1,190,255**	*1,090,075*
Elimination of inter-segment revenue	**(105,360)**	*(104,835)*
Consolidated revenue (note 3(a))	**1,084,895**	*985,240*

HKFRS 8.28(b)

	2020	*2019*
Profit	**$'000**	*$'000*
Reportable segment profit	**220,453**	*185,942*
Elimination of inter-segment profits	**(26,340)**	*(26,208)*
Reportable segment profit derived from group's external customers and joint venture	**194,113**	*159,734*
Share of profits less losses of associates	**13,830**	*12,645*
Other income	**11,119**	*9,190*
Depreciation and amortisation	**(34,128)**	*(27,675)*
Finance costs	**(20,618)**	*(16,166)*
Impairment losses on non-current assets	**(1,384)**	-
Unallocated head office and corporate expenses	**(13,674)**	*(10,045)*
Consolidated profit before taxation	**149,258**	*127,683*

HKFRS 8.28(c)

	2020	*2019*
Assets	**$'000**	*$'000*
Reportable segment assets	**797,336**	*720,298*
Elimination of inter-segment receivables	**(2,260)**	*(1,650)*
	795,076	*718,648*
Interests in associates	**40,308**	*29,478*
Non-current financial assets	**60,930**	*48,432*
Trading securities	**58,331**	*58,020*
Deferred tax assets	**2,539**	*3,495*
Unallocated head office and corporate assets	**8,689**	*6,334*
Consolidated total assets	**965,873**	*864,407*

HKFRS 8.28(d)

	2020	*2019*
Liabilities	**$'000**	*$'000*
Reportable segment liabilities	**356,208**	*338,266*
Elimination of inter-segment payables	**(2,260)**	*(1,650)*
	353,948	*336,616*
Current tax liabilities	**6,750**	*7,244*
Deferred tax liabilities	**19,194**	*13,850*
Unallocated head office and corporate liabilities	**25,534**	*19,024*
Consolidated total liabilities	**405,426**	*376,734*

HKFRS 8.33

(iii) Geographic information[120]

The following table sets out information about the geographical location of (i) the group's revenue from external customers and (ii) the group's investment property, other property, plant and equipment, intangible assets, goodwill and interests in associates and joint venture ("specified non-current assets")[121]*. The geographical location of customers is based on the location at which the services were provided or the goods delivered*[122]*. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of interests in associates and joint venture*[122]*.*

HKFRS 15.114

	Revenues from external customers[104]		*Specified non-current assets*	
	2020	*2019*	***2020***	*2019*
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong (place of domicile)[123]	***767,083***	*704,506*	***273,058***	*219,210*
Mainland China	***1,750***	*1,220*	***72,765***	*50,095*
United States	***129,528***	*100,600*	**-**	-
Singapore	***43,468***	*22,174*	***30,478***	*36,472*
Malaysia	***32,592***	*15,730*	***42,366***	*39,307*
Germany	***35,268***	*45,450*	**-**	-
France	***18,774***	*29,230*	**-**	-
Other countries	***56,432***	*66,330*	**-**	-
	317,812	*280,734*	***145,609***	*125,874*
	1,084,895	*985,240*	***418,667***	*345,084*

The analysis above includes property rental income from external customers in Hong Kong and in Mainland China of $7,795,000 (2019: $5,595,000) and $740,000 (2019: $616,000) respectively.

HKFRS 8.31-34

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

HKFRS 15.114

Regardless of where disclosed, these entity-wide disclosures are also a form of disaggregated revenue disclosure that may contribute towards satisfying paragraph 114 of HKFRS 15 (see footnote 104).

HKFRS 8.33

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

HKFRS 8.33

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

HKFRS 8.33

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

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

4 OTHER INCOME[104]

		2020	2019
		$'000	$'000
HKFRS 7.20(b)	Interest income on financial assets measured at amortised cost	**1,363**	1,008
	Dividend income	**610**	572
HKAS 20.39(b)	Government grants (note (i))[124]	**205**	-
	Rentals receivable from operating leases, other than those relating to investment property	**450**	3,300
	Financial guarantee contracts issued	**2**	2
HKFRS 7.24C(b)(ii)	Changes in fair value of interest rate swaps recognised as hedge ineffectiveness	**1**	1
A16(4)(1)(a)	Net loss on sale of property, plant and equipment[125]	**(83)**	-
HKFRS 7.20(a)(i)	Net realised and unrealised gains on trading securities[125]	**4,887**	4,307
	Net realised and unrealised gains on investments not held for trading	**3,684**	-
		11,119	9,190

HKAS 20.39(b)

(i) In 2020, the group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the [•] Government. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

HKAS 20.29

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

HKAS 1.34 & 35

HKFRS 7.20(a)(i)

125 In accordance with HKAS 1, the results of transactions which are incidental to the main revenue generating activities are generally presented on a net basis (for example, the net gain or loss arising from the disposal of a non-current asset). In addition, HKAS 1 states that gains and losses arising from a group of similar transactions (for example, gains and losses arising on financial instruments held for trading during the period) are reported together on a net basis, unless separately material. However, requirements of other more specific HKFRSs may restrict the extent to which amounts may be aggregated. For example, HKFRS 7 requires net gains or losses on financial instruments at fair value through profit or loss to be separately analysed between those arising on financial instruments designated as such upon initial recognition and those arising on instruments which are mandatorily measured at FVPL in accordance with HKFRS 9.

5 PROFIT BEFORE TAXATION

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

		2020 $'000	2019 $'000
	(a) Finance costs		
	Interest on bank loans and other borrowings (note 22(c))	**18,437**	14,229
HKFRS 16.53(b)	Interest on lease liabilities (note 22(c))	**4,587**	3,967
	Dividends on redeemable preference shares (note 22(c) & 32(b))	**200**	200
	Other interest expense (note 22(c))	**1,272**	880
HKFRS 7.20(b)	Total interest expense on financial liabilities not at fair value through profit or loss[126]	**24,496**	19,276
	Interest accrued on advance payments from customers (note 20(b))	**985**	518
HKAS 23.26(a)	Less: interest expense capitalised into properties under development*	**(4,765)**	(3,548)
		20,716	16,246
HKFRS 7.24C(b)(iv)	Interest-rate swaps: cash flow hedges, reclassified from equity (note 9(b))	**(98)**	(80)
		20,618	16,166

HKAS 23.26(b) * The borrowing costs have been capitalised at a rate of [●] - [●]% per annum (2019: [●] - [●]%).

		2020 $'000	2019 $'000
HKAS 1.104	**(b) Staff costs#[127]**		
HKAS 19.53	Contributions to defined contribution retirement plan	**9,972**	9,252
HKAS 19.135(b)	Expenses recognised in respect of defined benefit retirement plans (note 28(a)(v))	**13,852**	14,010
HKFRS 2.50 & 51(a)	Equity-settled share-based payment expenses (note 29)	**1,658**	1,625
	Salaries, wages and other benefits	**386,999**	354,525
		412,481	379,412

HKFRS 7.20(b) [126] Paragraph 20(b) of HKFRS 7 requires disclosure of total interest expense calculated using the effective interest method for financial liabilities that are not carried at fair value through profit or loss. This would include, for example, interest expense recognised on payables carried at amortised cost (i.e. due to deferred payment terms), interest on lease liabilities, as well as interest incurred on bank loans. However, it would not include the unwinding of discounts on provisions, as provisions are not a type of financial instrument.

HKAS 1.104, HKAS 19.53, 135(b) HKFRS 2.50, 51a [127] Disclosure of staff costs in this note would not normally be required when the analysis of expenses is presented using a classification based on the nature of expenses, rather than their function. However, disclosures of the amounts recognised as an expense for defined contribution plans and for share-based payment transactions are still required under the disclosure requirements of HKAS 19.53 and HKFRS 2.51(a), respectively. Although disclosure of expense recognised for defined benefit plans is not specifically required by HKAS 19, this information may be necessary in order to satisfy the disclosure objective of HKAS 19 – giving information that identifies the amounts in the financial statements arising from defined benefit plans. See footnote 208 for further details of HKAS 19's disclosure objectives.

A14(M) [128] In accordance with paragraph M of Appendix 14 to the MBLRs, a listed issuer is required to disclose an analysis of auditors' remuneration in respect of both audit and non-audit services in the corporate governance report (CGR) included in its annual report. The analysis must include, in respect of each significant non-audit service assignment,

A16(34) details of the nature of the services and the fees paid. Where a listed entity chooses to present such analysis in its annual financial statements, the issuer must make a clear and unambiguous reference to its annual financial statements from the CGR. The CGR must not only contain a cross-reference without any discussion of the matter.

Sch 4, Part 2 [129] Under the CO, companies are required to disclose, under a separate heading, the amount of the remuneration of the auditor. As defined in the CO, "remuneration" includes any sums paid by the company in respect of the auditor's expenses. This disclosure is required to be made in the financial statements.

HKAS 40.75(f) [130] Where the entity has investment properties which were vacant during the period, or otherwise not generating rental income, the entity should analyse direct operating expenses (including repairs and maintenance) between that amount relating to investment properties which generated rental income and that amount relating to investment properties that did not generate rental income.

CP [131] Although there is no requirement for such disclosure, it is best practice to show the extent of duplication in the disclosures made in this note.

(c) Other items

Reference		2020 $'000	2019 $'000
HKAS 1.104	Amortisation cost of intangible assets# (note 12)	**2,680**	1,500
HKAS 1.104	Depreciation charge# (note 11)		
	- owned property, plant and equipment	**10,858**	10,042
	- right-of-use assets	**20,590**	16,133
		31,448	26,175
	Impairment losses on non-financial assets		
	- plant and machinery (note 11(a))	**1,200**	-
	- goodwill (note 13)	**184**	-
		1,384	-
HKAS 21.52(a)	Net foreign exchange loss/(gain)	**1,250**	(5,251)
	Net (gain)/loss on forward foreign exchange contracts		
HKFRS 7.24C(b)(iv)	- net gain on cash flow hedging instruments reclassified from equity (note 9(b))#	**(300)**	(280)
HKFRS 7.20(a)(i)	- net (gain)/loss on other forward foreign exchange contracts	**(525)**	3,580
		425	(1,951)
CP	Auditors' remuneration[128]		
Sch 4, Part 2, Section 1	- audit services[129]	**1,062**	885
CP	- tax services	**200**	188
CP	- other services	**100**	80
		1,362	1,153
HKAS 38.126	Research and development costs (other than amortisation costs)	**6,750**	4,560
HKAS 37.84(b)	Increase in provisions (note 31)	**12,439**	12,000
HKAS 40.75(f)	Rentals receivable from investment properties less direct outgoings of $1,375,000 (2019: $1,037,000)[130]	**(7,160)**	(5,174)
HKAS 2.36(d)	Cost of inventories# (note 19(a))	**786,042**	719,370

Cost of inventories includes $315,678,000 (2019: $281,865,000) relating to staff costs, depreciation and amortisation expenses and net gain on cash flow hedging instruments reclassified from equity, which amount is also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.[131]

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

HKAS 12.79

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

		2020 $'000	2019 $'000
CP	**Current tax - Hong Kong Profits Tax**[132]		
HKAS 12.80(a)	Provision for the year	**13,000**	14,849
HKAS 12.80(b)	Under/(over)-provision in respect of prior years	**61**	(300)
		13,061	14,549
CP	**Current tax - Overseas**[132]		
HKAS 12.80(a)	Provision for the year	**7,769**	6,950
HKAS 12.80(b)	Over-provision in respect of prior years	**(619)**	-
		7,150	6,950
	Deferred tax		
HKAS 12.80(c)	Origination and reversal of temporary differences	**4,264**	(489)
	Effect on deferred tax balances at 1 January resulting from a change in tax rate (note 30(b))	**-**	325
		4,264	(164)
		24,475	21,335

HKAS 12.81(c)

The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the group which is a qualifying corporation under the two-tiered Profits Tax rate regime[133].

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2019.

The provision for Hong Kong Profits Tax for 2020 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2019/20 subject to a maximum reduction of $20,000 for each business (2019: a maximum reduction of $20,000 was granted for the year of assessment 2018/19 and was taken into account in calculating the provision for 2019).

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

[133] In March 2018, Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the "Ordinance") was enacted to implement a two-tiered profits tax rate regime. Under the two-tiered profits tax rate regime, the first HK$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The Ordinance is effective from the year of assessment 2018/2019. For each year of assessment, only one entity in a group is eligible for the two-tiered profits tax rates. Consequently, if a group company (i.e. the parent company, a fellow subsidiary or a subsidiary) of the reporting entity has elected to claim the 8.25% band for a particular year of assessment, the reporting entity will not be eligible for the lower tax rate for that year of assessment.

HKAS 12.81(c)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates[134]:

	2020	2019
	$'000	$'000
Profit before taxation	**149,258**	127,683
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**26,390**	22,580
Tax effect of non-deductible expenses	**397**	602
Tax effect of non-taxable income[135]	**(2,176)**	(1,940)
Tax effect of unused tax losses not recognised	**233**	150
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**-**	325
Statutory tax concession	**(240)**	(160)
Over-provision in prior years	**(558)**	(300)
Others	**429**	78
Actual tax expense	**24,475**	21,335

HKAS 12.81(c)

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

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

HKAS 12.85

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

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

7 DIRECTORS' EMOLUMENTS[136, 137]

S383(1), A16(24)
HKAS 24.17

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows[138]:

	Directors' fees	*Salaries, allowances and benefits in kind*	*Discretionary bonuses*	*Retirement scheme contributions*	*Sub-Total*	*Share-based payments (note)*[139]	*2020 Total*
	$'000	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***	***$'000***
Chairman							
Hon WS Tan	**150**	**-**	**-**	**-**	**150**	**-**	**150**
Executive directors							
SK Ho	**50**	**1,210**	**215**	**120**	**1,595**	**-**	**1,595**
YK Ng	**50**	**1,180**	**200**	**115**	**1,545**	**125**	**1,670**
PK Smith	**50**	**1,290**	**205**	**125**	**1,670**	**200**	**1,870**
CJ Wang (appointed on 18 June 2020)	**20**	**330**	**55**	**30**	**435**	**-**	**435**
BC Tong (resigned on 31 March 2020)	**10**	**165**	**25**	**15**	**215**	**(50)**	**165**
Independent non-executive directors							
TY Sham	**100**	**-**	**-**	**-**	**100**	**-**	**100**
YH Li	**100**	**-**	**-**	**-**	**100**	**-**	**100**
AC Man	**100**	**-**	**-**	**-**	**100**	**-**	**100**
	630	**4,175**	**700**	**405**	**5,910**	**275**	**6,185**

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

C(DIBD)R.4, 5&6

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

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

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

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

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

C(DIBD)R.4, 5&6

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

The SEHK has also further clarified in one of its supplementary materials on Listing Rules and Rules Changes, Frequently asked questions on rule amendments relating to corporate governance and listing criteria issues, dated 31 March 2005, that comparative figures for individual directors' emoluments must also be disclosed. The above analysis illustrates one of the possible formats for such disclosure. Paragraph B.1.8 of Appendix 14 to the MBLRs also recommends that issuers disclose details of any remuneration payable to members of senior management on an individual and named basis to the same extent as is required for directors.

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Sub-Total	Share-based payments[139]	2019 Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Chairman							
Hon WS Tan	150	-	-	-	150	-	150
Executive directors							
SK Ho	50	1,090	150	100	1,390	-	1,390
YK Ng	50	1,060	125	100	1,335	125	1,460
PK Smith	50	1,160	150	110	1,470	200	1,670
BC Tong	40	600	70	60	770	50	820
Independent non-executive directors							
TY Sham	100	-	-	-	100	-	100
YH Li	100	-	-	-	100	-	100
AC Man	100	-	-	-	100	-	100
	640	3,910	495	370	5,415	375	5,790

Note:

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

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

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

A16(25)
HKAS 24.17

Of the five individuals with the highest emoluments, three (2019: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2019: two) individuals are as follows:

		2020 $'000	2019 $'000
A16(25)(1)	*Salaries and other emoluments*	**1,500**	1,400
A16(25)(3)	*Discretionary bonuses*	**150**	140
	Share-based payments	**150**	150
A16(25)(2)	*Retirement scheme contributions*	**140**	130
		1,940	1,820

A16(25)(6)

The emoluments of the two (2019: two) individuals with the highest emoluments are within the following bands:

$			2020 Number of individuals	2019 Number of individuals
Nil	-	1,000,000	**1**	2
1,000,001	-	1,500,000	**1**	-

C(DIBD)R.4(2)(b) 139 The CO requires entities to disclose the nature of any non-cash benefits included in the total amounts disclosed for emoluments, retirement benefits, compensation or consideration paid to third parties. However, it is not necessary to separately disclose the monetary amounts of those non-cash benefits included in the totals. In the illustration above this requirement is met by separately disclosing share-based payments. Other examples could include allowing the director to live in accommodation owned by the company rent-free.

9 OTHER COMPREHENSIVE INCOME

HKAS 1.90

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

	2020 Before-tax amount $'000	**2020 Tax (expense)/ benefit $'000**	**2020 Net-of-tax amount $'000**	2019 Before-tax amount $'000	2019 Tax (expense)/ benefit $'000	2019 Net-of-tax amount $'000
Exchange differences on translation of:						
- financial statements of overseas subsidiaries	**(2,173)**	**-**	**(2,173)**	1,047	-	1,047
- related borrowings	**494**	**-**	**494**	(219)	-	(219)
	(1,679)	**-**	**(1,679)**	828	-	828
Surplus on revaluation of land and buildings held for own use	**27,290**	**(2,138)**	**25,152**	7,158	(846)	6,312
Cash flow hedge: net movement in hedging reserve	**(347)**	**61**	**(286)**	(320)	56	(264)
Remeasurement of net defined benefit liability	**(9)**	**-**	**(9)**	(10)	-	(10)
Equity investments at FVOCI: net movement in fair value reserve (non-recycling)	**90**	**-**	**90**	50	-	50
Other comprehensive income	**25,345**	**(2,077)**	**23,268**	7,706	(790)	6,916

HKAS 1.92-94

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

		2020 $'000	2019 $'000
	Cash flow hedges:		
	Effective portion of changes in fair value of hedging instruments recognised during the period	**51**	40
HKFRS 7.24C(b)(iv),(v)	Reclassification adjustments for amounts transferred to profit or loss:		
	- finance costs (note 5(a))	**(98)**	(80)
	- cost of inventories (note 5(c))	**(300)**	(280)
	Net deferred tax credited to other comprehensive income	**61**	56
	Net movement in the hedging reserve during the period recognised in other comprehensive income	**(286)**	(264)
	Equity investments measured at FVOCI		
HKFRS 7.20(a)(vii)	Changes in fair value recognised during the period	**90**	50
	Net movement in the fair value reserve (non-recycling) during the period recognised in other comprehensive income	**90**	50

10 EARNINGS PER SHARE

(a) Basic earnings per share

HKAS 33.70(a)&(b)

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the company of $114,367,000 (2019: $96,181,000) and the weighted average of 99,531,000 ordinary shares (2019: 99,000,000 shares after adjusting for the bonus issue in 2020)[140] in issue during the year, calculated as follows:

HKAS 33.70(b)

Weighted average number of ordinary shares

	2020	*2019*
	'000	*'000*
Issued ordinary shares at 1 January	***90,000***	*90,000*
Effect of bonus issue (note 32(c)(ii))	***9,000***	*9,000*
Effect of shares repurchased (note 32(c)(iii))	***(386)***	*-*
Effect of share options exercised (note 32(c)(iv))	***917***	*-*
Weighted average number of ordinary shares at 31 December	***99,531***	*99,000*

(b) Diluted earnings per share

HKAS 33.70(a)&(b)

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the company of $114,893,000 (2019: $96,704,000) and the weighted average number of ordinary shares of 100,470,000 shares (2019: 99,664,000 shares after adjusting for the bonus issue in 2020)[140], calculated as follows:

HKAS 33.26-27, 64

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

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

HKAS 33.70(a)

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

	2020	2019
	$'000	$'000
Profit attributable to ordinary equity shareholders	***114,367***	*96,181*
After tax effect of effective interest on the liability component of convertible notes	***525***	*522*
After tax effect of losses recognised on the derivative component of convertible notes	***1***	*1*
Profit attributable to ordinary equity shareholders (diluted)	***114,893***	*96,704*

HKAS 33.70(b)

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

	2020	2019
	'000	'000
Weighted average number of ordinary shares at 31 December	***99,531***	*99,000*
Effect of conversion of convertible notes (note 25)	***500***	*500*
Effect of deemed issue of shares under the company's share option scheme for nil consideration (note 29)	***439***	*164*
Weighted average number of ordinary shares (diluted) at 31 December	***100,470***	*99,664*

11 INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT[141]

(a) Reconciliation of carrying amount

		Ownership interests in land and buildings held for own use carried at fair value $'000	Other properties leased for own use carried at cost $'000	Plant, machinery and equipment $'000	Sub-total $'000	Investment property $'000	Total $'000
	Cost or valuation:						
HKAS 16.73(d)	At 1 January 2019	74,323	39,189	140,462	253,974	60,170	314,144
HKAS 16.73(e)(viii))	Exchange adjustments	236	-	870	1,106	-	1,106
HKAS 16.73(e)(i)	Additions	7,927	14,235	16,833	38,995	-	38,995
HKAS 16.73(e)(ii)	Disposals	-	-	(3,845)	(3,845)	-	(3,845)
HKAS 16.73(e)(iv)	Surplus on revaluation	7,158	-	-	7,158	-	7,158
	Less: elimination of accumulated depreciation	(1,937)	-	-	(1,937)	-	(1,937)
HKAS 40.76	Fair value adjustment	-	-	-	-	6,520	6,520
HKAS 16.73(d)	At 31 December 2019	87,707	53,424	154,320	295,451	66,690	362,141
	Representing:						
	Cost	-	53,424	154,320	207,744	-	207,744
	Valuation – 2019	87,707	-	-	87,707	66,690	154,397
		87,707	53,424	154,320	295,451	66,690	362,141
HKAS 16.73(d))	At 1 January 2020	87,707	53,424	154,320	295,451	66,690	362,141
HKAS 16.73(e)(viii))	Exchange adjustments	(1,171)	-	(1,230)	(2,401)	-	(2,401)
HKAS 16.73(e)(i)	Additions	10,373	14,535	16,344	41,252	-	41,252
HKAS 16.73(e)(ii)	Disposals	-	-	(4,570)	(4,570)	-	(4,570)
HKAS 16.73(e)(iv)	Surplus on revaluation	27,290	-	-	27,290	-	27,290
	Less: elimination of accumulated depreciation	(2,649)	-	-	(2,649)	-	(2,649)
HKAS 40.76	Fair value adjustment	-	-	-	-	18,260	18,260
HKAS 16.73(d)	**At 31 December 2020**	**121,550**	**67,959**	**164,864**	**354,373**	**84,950**	**439,323**
	Representing:						
	Cost	-	67,959	164,864	232,823	-	232,823
	Valuation – 2020	121,550	-	-	121,550	84,950	206,500
		121,550	67,959	164,864	354,373	84,950	**439,323**

HKAS 1.38 [141] Comparative information is required for the analysis of the movements, as HKFRSs do not give a specific exemption in this regard.

		Ownership interests in land and buildings held for own use carried at fair value $'000	Other properties leased for own use carried at cost $'000	Plant, machinery and equipment $'000	Sub-total $'000	Investment property $'000	Total $'000
	Accumulated amortisation and depreciation:						
HKAS 16.73(d)	At 1 January 2019	-	-	72,395	72,395	-	72,395
HKAS 16.73(e)(viii)	Exchange adjustments	-	-	334	334	-	334
HKAS 16.73(e)(vii)	Charge for the year	1,937	9,737	14,501	26,175	-	26,175
HKAS 16.73(e)(ii)	Written back on disposals	-	-	(2,837)	(2,837)	-	(2,837)
HKAS 16.73(e)(iv)	Elimination on revaluation	(1,937)	-	-	(1,937)	-	(1,937)
HKAS 16.73(d)	At 31 December 2019	-	9,737	84,393	94,130	-	94,130
HKAS 16.73(d)	At 1 January 2020	-	9,737	84,393	94,130	-	94,130
HKAS 16.73(e)(viii)	Exchange adjustments	-	-	(526)	(526)	-	(526)
HKAS 16.73(e)(vii)	Charge for the year	2,649	12,811	15,988	31,448	-	31,448
HKAS 16.73(e)(v)	Impairment loss	-	-	1,200	1,200	-	1,200
HKAS 16.73(e)(ii)	Written back on disposals	-	-	(3,738)	(3,738)	-	(3,738)
HKAS 16.73(e)(iv)	Elimination on revaluation	(2,649)	-	-	(2,649)	-	(2,649)
HKAS 16.73(d)	**At 31 December 2020**	**-**	**22,548**	**97,317**	**119,865**	**-**	**119,865**
HKAS 16.73(e)	**Net book value:**						
	At 31 December 2020	**121,550**	**45,411**	**67,547**	**234,508**	**84,950**	**319,458**
	At 31 December 2019	87,707	43,687	69,927	201,321	66,690	268,011

Impairment loss[142]

HKAS 36.126(a) & 130

In June 2020, a number of machines in the property development division[143] 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[144]. 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[145]. The fair value on which the recoverable amount is based on is categorised as a Level 3 measurement. The equipment was disposed of before the end of the year at approximately its carrying amount at that time.[146]

[*HKAS 36.126 to 132 contains detailed disclosure requirements that apply whenever an entity recognises an impairment loss. If any losses have been recognised, care should be taken to comply with these requirements, including disclosing key assumptions and the impact of the COVID-19 pandemic on these assumptions. It may be helpful to the reader to include sensitivity analysis for any particularly judgemental assumptions which may be subject to change in an uncertain future.*]

HKFRS 16.96

142 If the lessor recognises impairment loss on assets subject to operating leases, it needs to provide the disclosure required by HKAS 36 for assets subject to operating lease separately from owned assets held and used by the entity.

HKAS 36.130 (c)(ii)

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

HKAS 36.130(e)

144 For an individual asset (including goodwill) or a cash-generating unit for which an impairment loss has been recognised or reversed during the period, the entity is required to disclose the recoverable amount of the asset or CGU and whether the recoverable amount of the asset or CGU is its fair value less costs of disposal or its value in use. If the recoverable amount is fair value less costs of disposal, additional disclosures will be required. See footnote 145 below for details of those additional disclosures.

HKFRS 13.7(c)
HKAS 36.130(f)

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

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

HKAS 34.26

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

HKFRS 13.91-93

(b) Fair value measurement of properties[147]

HKFRS 13.93(b)

(i) Fair value hierarchy[150]

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

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

	Fair value at 31 December 2020[151]	Fair value measurements as at 31 December 2020 categorised into		
		Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Recurring fair value measurement [148]				
Investment properties[149]:				
- Residential – Mainland China	32,000	-	-	32,000
- Commercial – Hong Kong	52,950	-	52,950	-
Properties held for own use:				
- Freehold land and buildings – South East Asia	34,000	-	-	34,000
- Leasehold land and buildings[149] – Hong Kong	87,550	-	87,550	-

	Fair value at 31 December 2019	Fair value measurements as at 31 December 2019 categorised into		
		Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000
Recurring fair value measurement				
Investment properties:				
- Residential – Mainland China	26,500	-	-	26,500
- Commercial – Hong Kong	40,190	-	40,190	-
Properties held for own use:				
- Freehold land and buildings – South East Asia	30,059	-	-	30,059
- Leasehold land and buildings – Hong Kong	57,648	-	57,648	-

HKFRS 13.91 92, 99,C1-C3

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

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

HKFRS 13.93-99 lists out the disclosures required by the standard. The disclosure requirements apply only to fair value measurements made after initial recognition and vary depending on whether the fair value measurement is "recurring" or "non-recurring", and depending on which level of the 3-Level fair value hierarchy (as further discussed in footnote 150 below) that the assets or liabilities are categorised within. As explained in footnote 148 below, recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. All other measurements using fair value after initial recognition are "non-recurring". The most extensive disclosure requirements are for Level 3 measurements that are recurring.

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

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

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

HKFRS 13.93(a)

[148] Recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. Examples of recurring fair value measurements include investment properties accounted for using fair value model under HKAS 40, properties held for own use measured at revaluation model under HKAS 16, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income under HKFRS 9.

Non-recurring fair value measurements made after initial recognition are those that are triggered by particular circumstances. Non-recurring fair value measurements include an asset being classified as held for sale and measured at fair value less costs to sell under HKFRS 5.

HKAS 40.40A, HKFRS 16.34-35

[149] The right-of-use assets, and not the underlying property, shall be measured at fair value, when the lessee uses the fair value model to measure an investment property that is held as a right-of-use asset. This also applies to the situations where the lessee measures the right-of-use assets at revalued amounts applying HKAS 16.

HKFRS 13.93(b), 72-90

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

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

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

HKFRS 13.94

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

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

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

During the year ended 31 December 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2019: 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.[152]

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

All of the group's investment properties and properties held for own use were revalued as at 31 December 2020[153]. The valuations were carried out by an independent firm of surveyors, Lang and Associates, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued[154]. The group's property manager and the chief financial officer have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date[155].

HKFRS 13.93(d)

(ii) Valuation techniques and inputs used in Level 2 fair value measurements[156]

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

HKFRS 13.93(d)

(iii) Information about Level 3 fair value measurements[156]

	Valuation techniques	**Unobservable input**	**Range[157]**	**Weighted average[157]**
Investment properties Residential – Mainland China	Discounted cash flow	Risk-adjusted discount rate	[●]% to [●]% (2019: [●]% to [●]%)	[●]% (2019: [●]%)
		Expected market rental growth	[●]% to [●]% (2019: [●]% to [●]%)	[●]% (2019: [●]%)
		Expected occupancy rate	[●]% to [●]% (2019: [●]% to [●]%)	[●]% (2019: [●]%)
Properties held for own use Freehold land and buildings – South East Asia	Market comparison approach	Premium (discount) on quality of the buildings	-[●]% to [●]% (2019: -[●]% to [●]%)	[●]% (2019: [●]%)

HKFRS 13.93(h)(i)

The fair value of investment properties located in the Mainland China is determined by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates. The valuation takes into account expected market rental growth and occupancy rate of the respective properties. The discount rates used have been adjusted for the quality and location of the buildings and the tenant credit quality. The fair value measurement is positively correlated to the expected market rental growth and the occupancy rate, and negatively correlated to the risk-adjusted discount rates[158].

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

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

152 Entities are required to disclose the following in respect of recurring fair value measurements:

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

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

HKFRS 13.27-29, 93(i)

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

HKFRS 13.93(e), (f)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:[159]

	2020	2019
	$'000	$'000
Investment properties – Residential – Mainland China:		
At 1 January	**26,500**	24,310
Fair value adjustment	**5,500**	2,190
At 31 December	**32,000**	26,500

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

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

	2020	2019
	$'000	$'000
Properties held for own use – Freehold land and buildings – South East Asia		
At 1 January	**30,059**	28,013
Additions	**505**	1,080
Exchange adjustment	**(1,171)**	236
Depreciation charge for the year	**(1,020)**	(745)
Surplus on revaluation	**5,627**	1,475
At 31 December	**34,000**	30,059

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

[*Consider disclosing additional information to reflect the uncertainties in relation to the impact of the COVID-19 pandemic on property valuations, and give further details in accordance with HKFRS 13.91-99, including any change in valuation technique and transfers between levels of the fair value hierarchy*.]

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

HKAS 16.77(e)

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

	2020	2019
	$'000	$'000
Freehold land and buildings	**22,150**	24,260
Leasehold land and buildings	**58,390**	47,907
	80,540	72,167

HKAS 16.77
HKAS 40.75(e)

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

HKFRS 13.93(g), IE65

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

HKFRS 13.93(d)

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

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

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

HKFRS 13.93(h)(i)

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

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

HKFRS 13.93(e), 93(f)

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

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

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

HKFRS 16.52

(c) Right-of-use assets

HKFRS 16.53(j), 59(a)

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Notes	**2020**	2019
		$'000	$'000
Ownership interests in leasehold land and buildings held for own use, carried at fair value in Hong Kong, with remaining lease term[160] of:	(i)		
- 50 years or more		**65,610**	48,740
- between 10 and 50 years		**21,940**	8,908
		87,550	57,648
Other properties leased for own use, carried at depreciated cost	(ii)	**45,411**	43,687
Plant, machinery and equipment, carried at depreciated cost	(iii)	**23,472**	24,727
		156,433	126,062
Ownership interests in leasehold investment property, carried at fair value, with remaining lease term[160] of:			
- 50 years or more		**52,950**	40,190
- between 10 and 50 years		**32,000**	26,500
		84,950	66,690
		241,383	192,752

160 For the purposes of meeting the disclosure requirements of paragraph 59(a) of HKFRS 16, a lessee is required to provide information that helps users of financial statements to assess the nature of the lessee's leasing activities. In this regard, it would be informative to analyse the carrying value of significant ownership interests in leasehold land and buildings by indicating the remaining lease term as illustrated here.

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

		2020 $'000	2019 $'000
HKFRS 16.53(a)	Depreciation charge of right-of-use assets by class of underlying asset:		
	Ownership interests in leasehold land and buildings	**1,629**	1,192
	Other properties leased for own use	**12,811**	9,737
	Plant, machinery and equipment	**6,150**	5,204
		20,590	16,133
HKFRS 16.53(b)	Interest on lease liabilities (note 5(a))	**4,587**	3,967
HKFRS 16.53(c), C10(c)(ii)	Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019[161]	**1,050**	850
HKFRS 16.53(d)	Expense relating to leases of low-value assets, excluding short-term leases of low-value assets[161]	**3,300**	2,700
HKFRS 16.53(e)	Variable lease payments not included in the measurement of lease liabilities	**1,560**	1,760
HKFRS 16.60A(b)	COVID-19-related rent concessions received[78]	**(540)**	-

HKFRS 16.53(h) During the year, additions to right-of-use assets were $29,298,000 (2019: 25,082,000). This amount included the purchase of a leasehold property of $9,868,000 (2019: 6,847,000), and the remainder primarily related to the capitalised lease payments payable under new tenancy agreements.

HKFRS 16.52 Details of land leases included in the carrying amount of inventories, total cash outflow for leases, the maturity analysis of lease liabilities and the future cash outflows arising from leases that are not yet commenced are set out in notes 19(b), 22(d), 33(b) and 34, respectively.

HKFRS 16.60A(a) As disclosed in note 1(c), the group has early adopted the Amendment to HKFRS 16, *Leases*, *Covid-19-Related Rent Concessions*, and applies the practical expedient introduced by the Amendment to all eligible rent concessions received by the group during the period[78]. Further details are disclosed in (ii) below.

HKFRS 16.59(a)

(i) Ownership interests in leasehold land and buildings held for own use

The group holds several industrial buildings for its electronics business, where its manufacturing facilities are primarily located. The group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

HKFRS 16.53(c)&(d) [161] If the lessee has elected to apply the recognition exemption in HKFRS 16.5-6, the expenses relating to short-term leases (which need not include the expense relating to leases with a lease term of one month or less) and the expense relating to leases of low-value assets (which shall not include the expense relating to the short-term leases of low-value assets) shall be disclosed.

(ii) Other properties leased for own use

HKFRS 16.59(a)

The group has obtained the right to use other properties as its warehouses and retail stores through tenancy agreements. The leases typically run for an initial period of [●] to [●] years. Lease payments are usually increased every [●] years to reflect market rentals.

HKFRS 16.59(b)(ii), B50

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the group seeks to include such extension options exercisable by the group to provide operational flexibility. The group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarised below:[162]

	Lease liabilities recognised (discounted)		Potential future lease payments under extension options not included in lease liabilities (undiscounted)	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Warehouses – Hong Kong	**7,186**	7,929	**3,000**	1,400
Retail stores – Hong Kong	**4,535**	6,606	**4,800**	4,800

HKFRS 16.59(b)(i), B49

The group leased a number of retail stores which contain variable lease payment terms that are based on sales generated from the retail stores and minimum annual lease payment terms that are fixed. These payment terms are common in retail stores in Hong Kong where the group operates. During 2020 the group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19. The amount of fixed and variable lease payments for the year is summarised below:[162]

HKFRS 16.59 & B48-B52

[162] In addition to the quantitative disclosure as required by HKFRS 16.53-58, paragraph 59 of HKFRS 16 requires a lessee to disclose additional qualitative and quantitative information about its leasing activities necessary to give a basis for users to assess the effect on the financial statements. In determining whether additional information about leasing activities is necessary, paragraph B48 of HKFRS 16 states that the information is likely to be relevant if it helps users of financial statements to understand:

- the flexibility provided by leases (for example, if the entity can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions);
- restrictions imposed by leases (for example, if the lessee requires the entity to maintain particular financial ratio);
- sensitivity of reported information to key variables (for example, if lease payments are linked to sales or usage volume or other variables);
- exposure to other risks arising from leases (for example, residual value risk); and
- deviations from industry practice (for example, unusual lease terms and conditions that affect a lessee's lease portfolio, or sale and leaseback transactions).

HKFRS 16.59 provides examples of information that the entity should consider disclosing, including variable lease payments, extension and termination options, residual value guarantees and sale and leaseback transactions. HKFRS 16.B49-B52 expands to give further examples of additional information in respect of these items. In this illustration, HK Listco determines that the information about flexibility provided by the extension options and the variability of turnover rent are relevant to users of financial statements and are not available elsewhere in this illustrative annual report. Entities should use their judgement to determine what additional information is relevant in view of their circumstances and therefore requires disclosure.

In addition, the information about the nature of rent concessions (e.g. one-off rent reductions, rent waivers or deferrals of lease payments), if material, would be relevant to users of financial statements regardless of whether a lessee applies the practical expedient relating to COVID-19 (see footnote 78).

	2020			
	Fixed payments $'000	**Variable payments $'000**	**COVID-19 rent concessions $'000**	**Total payments $'000**
Retail stores – Hong Kong	2,400	1,560	(540)	3,420

	2019		
	Fixed payments $'000	Variable payments $'000	Total payments $'000
Retail stores – Hong Kong	2,400	1,760	4,160

At 31 December 2020, it is estimated that an increase in sales generated from these retail stores by 5% would have increased the lease payments by $198,000 (2019: $208,000).

(iii) Other leases

HKFRS 16.59(a), (b) The group leases production plant, machinery and office equipment under leases expiring from [●] to [●] years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

HKFRS 16.92

(d) Investment property

The group leases out investment property under operating leases. The leases typically run for an initial period of [●] to [●] years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually increased every [●] years to reflect market rentals. Certain leases include variable lease payment terms that are based on the revenue of tenants.

HKFRS 16.97 Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the group in future periods as follows[163]:

	2020 $'000	2019 $'000
Within 1 year	**9,780**	7,600
After 1 year but within 2 years	**8,360**	6,280
After 2 year but within 3 years	**8,360**	6,280
After 3 year but within 4 years	**6,800**	6,280
After 4 year but within 5 years	**6,800**	4,720
After 5 years	**10,250**	7,970
	50,350	39,130

HKFRS 16.94 & 97 [163] Paragraphs 94 and 97 of HKFRS 16 requires an entity to disclose the maturity analysis of undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years following the reporting date and a total of the amounts for the remaining years.

HKAS 1.113 The above disclosure could alternatively be presented together with information about revenue from remaining performance obligations as required by HKFRS 15.120 as both disclosures relate to revenue under contracts existing as at the end of the reporting period that is expected to be recognised in the future. In HK Listco's financial statements, this disclosure may be found in note 3(a).

HKFRS 16.92, 95

(e) Machinery leased out under operating leases

	$'000
Cost:	
At 1 January 2019, 31 December 2019 and 31 December 2020	**2,100**
Accumulated depreciation:	
At 1 January 2019	210
Charge for the year	210
At 31 December 2019	420
At 1 January 2020	420
Charge for the year	210
At 31 December 2020	**630**
Net book value:	
At 31 December 2020	**1,470**
At 31 December 2019	1,680

HKFRS 16.97

The group leases out a number of items of machinery under operating leases. The leases typically run for an initial period of [●] to [●] years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes variable lease payments. Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the group in future periods are $450,000 per annum in the next two years (2019: $450,000 per annum in the next three years). Where practicable, the group obtains residual value guarantees from the lessee to reduce the residual asset risk.[164]

HKAS 16.79(a)

(f) Temporarily idle property, plant and equipment

At 31 December 2020, plant and equipment with a carrying amount of $12,450,000 were temporarily idle because of a suspension of a production line. The group plans to introduce new products and operate the assets in 2021.

HKFRS 16.92(a)&(b)

164 HKFRS 16.92 requires a lessor to disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89 of HKFRS 16 - disclosing information that gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. In particular, it requires additional information about how the lessor manages the risk associated with any rights it retains in underlying assets. A lessor needs to disclose its risk management strategy for the rights it retains in underlying asset, including any means by which it reduces that risk (e.g. buy-back agreements, residual value guarantees and variable lease payments).

12 INTANGIBLE ASSETS[141]

HKAS 38.118(c)&(e)

	Development costs $'000	Patents and trademarks $'000	Total $'000
Cost:			
At 1 January 2019	-	15,000	15,000
Addition through internal development	2,400	-	2,400
At 31 December 2019	2,400	15,000	17,400
At 1 January 2020	2,400	15,000	17,400
Addition through internal development	1,500	-	1,500
Addition through acquisition of subsidiary	-	2,000	2,000
At 31 December 2020	**3,900**	**17,000**	**20,900**
Accumulated amortisation:			
At 1 January 2019	-	1,500	1,500
Charge for the year	-	1,500	1,500
At 31 December 2019	-	3,000	3,000
At 1 January 2020	-	3,000	3,000
Charge for the year	780	1,900	2,680
At 31 December 2020	**780**	**4,900**	**5,680**
Net book value:			
At 31 December 2020	**3,120**	**12,100**	**15,220**
At 31 December 2019	2,400	12,000	14,400

HKAS 38.118(d)

The amortisation charge for the year is included in "cost of sales" in the consolidated statement of profit or loss[79].

[*HKAS 36.126 to 132 contains detailed disclosure requirements that apply whenever an entity recognises an impairment loss. If any losses have been recognised, care should be taken to comply with these requirements, (and HKAS 36.134-135 for intangible assets with indefinite useful lives), including disclosing key assumptions and the impact of the COVID-19 pandemic on these assumptions. It may be helpful to the reader to include sensitivity analysis for any particularly judgemental assumptions which may be subject to change in an uncertain future.*]

Acquisition of subsidiary

On 15 January 2020, the group entered into a sale and purchase agreement to acquire 100% equity interest in Best Solutions Limited at a total consideration of $2,000,000 (note 22(e)). The principal activity of Best Solutions Limited is to design integrated lighting control solutions, and its identifiable assets are mainly patents and trademarks. The transaction was completed in March 2020 and recognised as an acquisition of assets, rather than a business combination, given that substantially all of the fair value of the gross assets is concentrated in a group of similar identifiable assets (the patents and trademarks). Further details of the net assets acquired are set out in note 22(e).

13 GOODWILL[141]

		$'000
	Cost:	
HKFRS 3.B67(d)(i)	**At 1 January 2019, 31 December 2019 and 31 December 2020**	**1,100**
	Accumulated impairment losses:	
HKFRS 3.B67(d)(i)	At 1 January 2019, 31 December 2019 and 1 January 2020	-
HKFRS 3.B67(d)(v)	Impairment loss	184
HKFRS 3.B67(d)(viii)	**At 31 December 2020**	**184**
	Carrying amount:	
	At 31 December 2020	**916**
	At 31 December 2019	1,100

Impairment tests for cash-generating units containing goodwill

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

HKAS 36.134(a)

	2020 **$'000**	2019 $'000
Electronics - Hong Kong	**866**	1,050
Multiple units without significant goodwill[165]	**50**	50
	916	1,100

HKAS 36.135

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

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

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

Electronics - Hong Kong

HKAS 36.134(c) & (d)

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of [●]% (2019: [●]%) which is consistent with the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate of [●]% (2019: [●]%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments[166].

HKAS 36.126(a), 130(a) & (e) & 134(f)

The impairment loss of $184,000 recognised in "Other operating expenses" during the year solely relates to the group's electronics manufacturing activities based in Hong Kong. As the CGU has been reduced to its recoverable amount of $1,716,501,000[144], any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.[167]

[*HKAS 36.126 to 132 contains detailed disclosure requirements that apply whenever an entity recognises an impairment loss for goodwill. In addition, HKAS 36.134 to 135 contains specific disclosure requirements which apply to estimates used to measure recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives. Care should be taken to comply with these requirements, including a description of management's approach to determining the values assigned to the key assumptions, the impact of the COVID-19 pandemic on these assumptions and the information about the sensitivity of recoverable amount to changes in those key assumptions.*]

HKAS 36.134

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

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

HKAS 36.134(f)

167 For each CGU for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with an entity's total carrying amount of goodwill or intangible assets with indefinite useful lives, disclosure of the following information is required if a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount:

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

HKFRS 12.1&3&C2B [168] HKFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate:
- the nature of, and risks associated with, its interests in other entities; and
- the effects of those interests on its financial position, financial performance and cash flows.

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

HKFRS 12.5A, B17 The disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with HKFRS 5.

A16(9)(2) [169] Paragraph 9(2) of Appendix 16 to the MBLRs requires listed issuers to disclose particulars of the issued share capital and debt securities of every subsidiary. In accordance with Note 9.2 to paragraph 9 of Appendix 16, if a listed issuer has an excessive number of subsidiaries, the statement need only include details for subsidiaries which, in the opinion of the directors, materially contribute to the net income of the group or hold a material portion of the assets or liabilities of the group.

A16(9)(1) [170] Paragraph 9(1) of Appendix 16 to the Main Board Listing Rules requires the disclosure of the subsidiary's principal country of operation and country of incorporation or other establishment. Where the subsidiary is established in the PRC, disclosure of the type of legal entity it is registered as under PRC law (such as a contractual or cooperative joint venture) is also required.

CP [171] Although not required, the proportion of voting power held is also commonly shown if different from the proportion of ownership interest.

14 INVESTMENTS IN SUBSIDIARIES[168]

HKFRS 12.10
HKAS 24.13
A16(9)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.[169]

Name of company	Place of incorporation and business[170]	Particulars of issued and paid up capital and debt securities[169]	Proportion of ownership interest: Group's effective interest	Held by the company	Held by a subsidiary[171]	Principal activity
ABC Electronics Limited	Hong Kong	10,000,000 shares	100%	100%	-	Manufacture of electronic products
BB Trading Limited	Hong Kong	1,000,000 shares	67.5%	-	67.5%	Wholesaling and retailing of electronic products
Best Solutions Limited	Hong Kong	100,000 shares	100%	100%	-	Design of electronic systems
Bright Light Limited	Hong Kong	2,000,000 shares	100%	100%	-	Construction and trading
Bright Property Limited	Hong Kong	5,000,000 shares and HK$ 5 million debentures 8% 2023 (Note 25)	100%	100%	-	Property investment
Brilliant Property Limited	Hong Kong	1,000,000 shares	100%	100%	-	Property development
Future Trading Limited	Hong Kong	2,000,000 shares	100%	100%	-	Investment holding
Smart Electronics Limited	Singapore	2,000,000 shares of S$ 1 each	100%	100%	-	Manufacture of electronic products
*P.J. Enterprise Limited	USA	500,000 shares of US$ 1 each	100%	100%	-	Marketing of electronic products
*Solid Trading Inc	USA	500,000 shares of US$ 1 each	90%	-	90%	Wholesaling and retailing of electronic products
Wilson Industries Sdn Bhd	Malaysia	2,000 shares of MYR 1 each	70%	70%	-	Manufacture of electronic products

PNote 600.1(22)&(24)

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

HKFRS 12.12
HKFRS 12.B10, B11

The following table lists out the information relating to BB Trading Limited, the only subsidiary of the group which has a material non-controlling interest (NCI). The summarised financial information presented below represents the amounts before any inter-company elimination[172].

	2020 **$'000**	2019 $'000
NCI percentage	**32.5%**	32.5%
Current assets	**192,688**	167,121
Non-current assets	**88,039**	76,462
Current liabilities	**(30,680)**	(25,384)
Non-current liabilities	**(9,574)**	(8,173)
Net assets	**240,473**	210,026
Carrying amount of NCI	**78,154**	68,258
Revenue	**370,575**	360,338
Profit for the year	**30,446**	29,720
Total comprehensive income	**30,446**	29,720
Profit allocated to NCI	**9,895**	9,659
Dividend paid to NCI	**-**	-
Cash flows from operating activities	**26,110**	21,959
Cash flows from investing activities	**(4,937)**	(3,341)
Cash flows from financing activities	**(2,963)**	(3,614)

HKFRS 12.12, B10-B11

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

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

The amounts disclosed should be before inter-company eliminations.

15 INTEREST IN ASSOCIATES[168, 173]

HKFRS 12.21

The following list contains only the particulars of material associates[173], all of which are unlisted corporate entities whose quoted market price is not available[174]:

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

HKFRS 12.21(a)(ii)

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

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

HKFRS 12.21(b)(i)

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

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

Summarised financial information of the material associates, adjusted for any differences in accounting policies[175], and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:[176]

HKFRS 12.21(a)

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

HKFRS 12.21(b)(iii)

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

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

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

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

HKFRS 12.B14(b)

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

	Prospect Construction Sdn Bhd		MT Trading Limited	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Gross amounts of the associates'				
Current assets	**24,687**	20,082	**76,875**	75,222
Non-current assets	**50,104**	42,766	**91,966**	70,741
Current liabilities	**(23,561)**	(20,981)	**(40,875)**	(48,263)
Non-current liabilities	**(14,340)**	(15,262)	**(29,366)**	(26,792)
Equity	**36,890**	26,605	**98,600**	70,908
Revenue	**102,659**	102,111	**138,276**	166,868
Profit from continuing operations	**17,700**	17,425	**28,200**	24,050
Post-tax profit or loss from discontinued operations	**-**	-	**-**	-
Other comprehensive income	**-**	-	**-**	-
Total comprehensive income	**17,700**	17,425	**28,200**	24,050
Dividend received from the associate	**-**	-	**3,000**	-
Reconciled to the group's interests in the associates				
Gross amounts of net assets of the associate	**36,890**	26,605	**98,600**	70,908
Group's effective interest	**36%**	36%	**25%**	25%
Group's share of net assets of the associate	**13,280**	9,578	**24,650**	17,727
Goodwill	**900**	900	**-**	-
Carrying amount in the consolidated financial statements	**14,180**	10,478	**24,650**	17,727

HKFRS 12.21(c)

Aggregate information of associates that are not individually material:[177]

HKFRS 12.B16

	2020	2019
	$'000	$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**1,478**	1,273
Aggregate amounts of the group's share of those associates'		
Profit from continuing operations	**408**	360
Post-tax profit or loss from discontinued operations	**-**	-
Other comprehensive income	**-**	-
Total comprehensive income	**408**	360

[*Consider disclosing any impairment loss made as a result of the COVID-19 pandemic, and giving further details in accordance with HKAS 36.126-132.*]

HKFRS 12.21(c) & B16

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

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

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

16 INTEREST IN JOINT VENTURE[168, 173]

HKFRS 12.21

Details of the group's interest in the joint venture[173], which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Group's effective interest	Held by the company	Held by a subsidiary	Principal activity
Sun Co Ltd	Incorporated	People's Republic of China	Registered capital RMB 2,000,000	50%	-	50%	Construction (Note 1)

HKFRS 12.21(a)(ii)

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

HKFRS 12.21(b)(iii)

Sun Co Ltd, the only joint venture in which the group participates, is an unlisted corporate entity whose quoted market price is not available[174].

HKFRS 12.21(b)(ii)

Summarised financial information of Sun Co Ltd, adjusted for any differences in accounting policies[175], and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below[176]:

		2020	2019
		$'000	$'000
	Gross amounts of Sun Co Ltd's		
HKFRS 12.B12	Current assets	**25,136**	14,826
	Non-current assets	**110,750**	96,500
	Current liabilities	**(37,820)**	(37,350)
	Non-current liabilities	**(96,136)**	(72,386)
	Equity	**1,930**	1,590
HKFRS 12.B13	Included in the above assets and liabilities[178]:		
	Cash and cash equivalents	**12,856**	11,950
	Current financial liabilities (excluding trade and other payables and provisions)	**(11,350)**	(11,750)
	Non-current financial liabilities (excluding trade and other payables and provisions)	**(95,250)**	(74,850)

		2020	2019
		$'000	$'000
HKFRS 12.B12	Revenue	**747,858**	627,538
	Profit from continuing operations	**21,340**	20,450
	Post-tax profit or loss from discontinued operations	**-**	-
	Other comprehensive income	**-**	-
	Total comprehensive income	**21,340**	20,450
	Dividend received from Sun Co Ltd	**-**	-
HKFRS 12.B13	Included in the above profit: [178]		
	Depreciation and amortisation	**(14,556)**	(12,335)
	Interest income	**1,160**	1,110
	Interest expense	**(1,270)**	(1,160)
	Income tax expense	**(7,168)**	(6,890)
	Reconciled to the group's interest in Sun Co Ltd		
HKFRS 12.B14(b)	Gross amounts of Sun Co Ltd's net assets	**1,930**	1,590
	Group's effective interest	**50%**	50%
	Group's share of Sun Co Ltd's net assets	**965**	795
	Group's share of shareholders' loan (note 2)	**41,800**	31,300
	Carrying amount of the group's interest	**42,765**	32,095

Note 2: In accordance with the terms of the joint venture agreement, both parties to the joint venture have provided loan capital to the joint venture in proportion to their shareholdings and under equal terms. The loans are unsecured, interest free and subordinated to the other financing obtained by the joint venture. Repayment of any amount of the loan capital requires both venturers' approval and is subject to the joint venture having sufficient assets after taking into account the external financing and accumulated profits. Accordingly, the shareholder's loan forms an integral part of the group's equity investment in the joint venture and is recognised as such[179].

[*Consider disclosing any impairment loss made as a result of the COVID-19 pandemic, and giving further details in accordance with HKAS 36.126-132.*]

HKFRS 12.B13 [178] In addition to the summarised financial information listed out in footnote 175 above, an entity should disclose for each material joint venture the amount of:

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

[179] In these illustrative financial statements, HK Listco's loan to a thinly capitalised joint venture has been recognised as an integral part of the group's equity interest in the joint venture, even though the joint venture classifies the loan as a liability given the terms and conditions of the arrangement. It therefore falls outside the scope of HKFRS 9 and is included as a reconciling item in the analysis of the group's interest in the joint venture's net assets.

17 Other non-current financial assets[180]

		Notes	**2020 $'000**	2019 $'000
HKFRS 7.8(f)	**Financial assets measured at amortised cost**			
HKAS 24.18(b)	- Loans to associates	(i)	**31,601**	21,596
HKFRS 7.8(h), 11A(c)	**Equity securities designated at FVOCI (non-recycling)**	(ii)		
	- Unlisted equity securities[181]		**5,040**	4,950
HKFRS 7.8(a)	**Financial assets measured at FVPL**			
	- Equity securities listed in Hong Kong		**7,823**	6,710
	- Units in bond funds listed in Hong Kong		**16,466**	15,176
			24,289	21,886
			60,930	48,432

Notes:

HKFRS 7.35K (i) The loans bear floating interest rates of [●]% and [●]% per annum and will both mature in 2027. The loans are fully secured by properties held by the associates. The group does not have the right to sell or re-pledge the properties held as collateral in the absence of default by the associates.[182]

HKFRS 7.11A (ii) The unlisted equity securities are shares in Bright Top (Asia) Ltd, a company incorporated in Hong Kong and engaged in market research. The group designated its investment in Bright Top (Asia) Ltd at FVOCI (non-recycling), as the investment is held for strategic purposes[183]. No dividends were received on this investment during the year (2019: nil).

HKFRS 13.91, 97 [180] HK Listco's financial assets disclosed in notes 17 and 18 include equity securities (both held-for-trading and not held-for-trading) and units in bond funds which are measured at fair value in the statement of financial position on a recurring basis after initial recognition. Therefore, HKFRS 13 disclosures are required for these financial assets. For other financial assets in note 17 that are not measured at fair value i.e. loans to associates, under HKFRS 13.97 they will be subject to certain HKFRS 13 disclosure requirements if their fair value is disclosed in the financial statements e.g. when the carrying amount of the loans is not a reasonable approximation of their fair value and therefore the fair value is disclosed as required by HKFRS 7.25.

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

HKFRS 9.B5.7.1 [181] The unlisted shares comprise shares in an unlisted entity, and the group has elected to designate all of its shares in this unlisted entity as at FVOCI (non-recycling) as this investment is held for strategic purposes. This election is available on an instrument-by-instrument basis, i.e. it is not an accounting policy that needs to be applied to all similar transactions.

HKFRS 7.15 & 38 [182] If the entity is permitted to sell or re-pledge the collateral it has accepted in the absence of default by the owner of the collateral, paragraph 15 of HKFRS 7 requires certain specific disclosure in the financial statements, including the fair value of the collateral accepted and the collateral sold or re-pledged as well as other material terms and conditions associated with the use of this collateral.

In addition, when an entity recognises financial or non-financial assets during the period as a result of taking possession of collateral it accepted as security or calling on other credit enhancements (for example, guarantees), paragraph 38 of HKFRS 7 requires the entity to disclose the nature and carrying amounts of such assets held at the reporting date. If such assets are not readily convertible into cash, further disclosure needs to be provided regarding the entity's policies for disposing of these assets or for using them in its operations.

18 TRADING SECURITIES[180]

		2020	2019
		$'000	$'000
HKFRS 7.8(a)	Listed equity securities at FVPL (note 33(f)(i))		
	- in Hong Kong	**42,800**	44,355
	- outside Hong Kong	**15,531**	13,665
		58,331	58,020

HKFRS 7.11A & 11B

183 If an entity designates an investment in equity instruments at FVOCI (non-recycling), paragraph 11A of HKFRS 7 requires the following information to be disclosed:

(a) which investments have been designated;
(b) the reason for the designation;
(c) the fair value of each such investment at the end of the reporting period;
(d) dividends recognised during the period, showing separately those related to investments derecognised during the reporting period and those related to investments held at the end of the reporting period; and
(e) any transfer of the cumulative gain or loss within equity during the period including the reason for such transfers. For example, an entity may transfer the amount accumulated in other comprehensive income to another component of equity upon derecognising the equity investments.

HKFRS 7 is not explicit as to what information should be disclosed in respect of item HKFRS 7.11A(a) i.e. whether it is necessary to disclose the investee's name and/or any other information which would identify "which investments" have been designated at FVOCI (non-recycling) in a way that provides useful information to the reader. In this illustration HK Listco has designated an investment in an unlisted company at FVOCI (non-recycling) and has decided to disclose the name of this investee, its place of incorporation and some further information about this company's business, which users of the financial statements may find helpful, especially if there is little or no information publicly available about this company. If an entity has designated a large number of individually insignificant investments at FVOCI (non-recycling), the entity may consider aggregating the information, for example by industry sector, for disclosure purposes.

In addition, if an entity derecognises an equity investment designated at FVOCI (non-recycling) during the reporting period, paragraph 11B of HKFRS 7 requires an entity to disclose the following information:

(a) the reason for disposing of the investments;
(b) the fair value of the investments at the date of derecognition; and
(c) the cumulative gain or loss on disposal.

19 INVENTORIES AND OTHER CONTRACT COSTS

		2020	2019
		$'000	$'000
	Inventories		
HKAS 2.36(b)	Electronic manufacturing		
	- Raw materials	**42,900**	45,133
	- Work in progress	**33,675**	23,253
	- Finished goods	**43,727**	32,166
	- Goods in transit	**9,658**	3,323
		129,960	103,875
	Property development		
	- Land held for future development for sale	**12,025**	10,340
	- Property under development for sale	**115,943**	103,344
		127,968	113,684
	Other contract costs[184]	**716**	514
		258,644	218,073

HKAS 2.36(d)

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

		2020	2019
		$'000	$'000
	Carrying amount of inventories sold	**774,748**	708,796
HKAS 2.36(e)	Write down of inventories	**12,794**	10,574
HKAS 2.36(f)	Reversal of write-down of inventories	**(1,500)**	-
		786,042	719,370

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

[*Apart from disclosing the amount of any write-down of inventories made as a result of the COVID-19 pandemic, it may be helpful to the reader to disclose the circumstances or events that led to the write-down of inventories*]

HKAS 1.29, 60, 66

[184] 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, aggregated in the same line item as inventories on the face of the statement of financial position, with separate analysis in the notes. The capitalised contract costs satisfy the criteria set out in HKAS 1.66 for classification as a current asset, as HK Listco's capitalised costs relate to the sale of specific properties to be recognised during HK Listco's normal operating cycle. The costs are aggregated with inventories, as 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. Alternatively, the costs could be presented as a separate line item on the face of the statement of financial position within current assets.

We would expect that in most cases classification as current assets 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 1.61

The amount of properties for future development and under development expected to be recovered after more than one year is $12,025,000 and $57,853,000 respectively (2019: $10,340,000 and $50,793,000 respectively). All of the other inventories are expected to be recovered within one year[185].

HKFRS 16.53(j), 54, 59(a)

(b) The analysis of carrying value of land[186] held for property development for sale is as follows:

	2020	2019
	$'000	$'000
In Hong Kong, with remaining lease term of:		
- 50 years or more	**67,046**	58,177
- between 10 and 50 years	**16,760**	16,760
	83,806	74,937

HKAS 1.61

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

HKFRS 16.53(j)& 54

186 Where the entity has included right-of-use assets within inventory on the face of the statement of financial position (as allowed by paragraph 47(a) of HKFRS 16), the lessee shall disclose the amount of these right-of-use assets at the end of the reporting period by class of underlying asset in the notes as required by paragraphs 47(a), 54 and 53(j) of HKFRS 16.

HKFRS 16.59(a)

In addition, a lessee is required to disclose information that helps users of financial statements to assess the nature of the lessee's leasing activities. In this regard, it would be informative to analyse the carrying value of significant ownership interests in leasehold properties by indicating the remaining lease term as illustrated here.

(c) Contract costs

HKFRS 15.128(a), (b)

Contract costs capitalised as at 31 December 2020 relate to the incremental sales commissions paid to property agents whose selling activities resulted in customers entering into sale and purchase agreements for the group's properties which are still under construction at the reporting date[187]. Contract costs are recognised as part of "distribution costs"[188] in the statement of profit or loss in the period in which revenue from the related property sales is recognised. The amount of capitalised costs recognised in profit or loss during the year was $1,052,000 (2019: $755,000). There was no impairment in relation to the opening balance of capitalised costs or the costs capitalised during the year (2019: Nil).

HKFRS 15.94, 129

The group applies the practical expedient in paragraph 94 of HKFRS 15 and recognises the incremental costs of obtaining contracts relating to the sale of completed properties and services as an expense when incurred if the amortisation period of the assets that the group otherwise would have recognised is within the same reporting period as the date of entering into the contract.[189]

HKAS 1.61

The amount of capitalised contract costs that is expected to be recovered after more than one year is $527,000 (2019: $378,000).[185]

HKFRS 15.128(a)

187 HKFRS 15 requires analysis of the closing balances of capitalised contract costs by main category of cost (e.g. costs to obtain contracts with customers, pre-contract costs and setup cost). In these illustrative financial statements, HK Listco only has capitalised contract costs in relation to the sales commission paid to the property agents.

HKAS 1.15 & 99

188 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 (see footnote 43) 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.

HKFRS 15.129

189 Under the disclosure requirement of HKFRS 15.129, if an entity has taken advantage of the practical expedient in relation to capitalisation of costs of obtaining contracts, it needs to disclose this fact.

As discussed in footnote 95, in this illustration HK Listco does not take full advantage of the practical expedient as HK Listco only applies the practical expedient to costs of obtaining contracts that would be fully amortised in the period they arise if they had been capitalised. HK Listco's disclosure is therefore tailored to suit its facts and circumstances.

If an entity takes full advantage of the practical expedient and therefore only capitalises the costs of obtaining contracts with amortisation period longer than one year, the following example wording could be used to satisfy the disclosure requirement of HKFRS 15.129:

"The group applies the practical expedient in paragraph 94 of HKFRS 15 and recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the asset that the group otherwise would have recognised is one year or less from the initial recognition of the asset."

20 CONTRACT ASSETS AND CONTRACT LIABILITIES

(a) Contract assets

HKFRS 15.116(a)

	2020 $'000	2019[190] $'000
Contract assets[191]		
Arising from performance under construction contracts	**1,478**	14,553
Arising from performance under made-to-order manufacturing arrangements	**9,073**	8,785
	10,551	23,338
Receivables from contracts with customers within the scope of HKFRS 15, which are included in "Trade and other receivables" (note 21)[191]	**69,358**	55,287

HKFRS 15.117-118

Typical payment terms which impact on the amount of contract assets recognised are as follows:

- Construction contracts

  The group's construction contracts include payment schedules which require stage payments over the construction period once milestones are reached. These payment schedules prevent the build-up of significant contract assets. Starting from 2020, the group has also introduced new contract terms whereby a 20% deposit is payable up front and this has resulted in a contract liability at early stages of the projects and a significant decrease in the contract asset balance at any given time thereafter, compared to previous periods[192]. However, the group also typically agrees to a one year retention period for 5% of the contract value. This amount is included in contract assets until the

HKFRS 15.116(a) 190 HKFRS 15 requires entities to disclose the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers if they are not otherwise separately disclosed or presented.

HKFRS 15.107-108 191 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.

If an entity has an unconditional right to receive consideration from a customer before it has transferred goods and services, then in addition to recognising a receivable the entity would recognise a contract liability to reflect the entity's outstanding obligation to transfer goods or services. A contract liability would also be recognised, rather than a payable, if the entity has received a non-refundable deposit ahead of transferring goods or services.

HKFRS 15.117 192 HKFRS 15 requires entities to explain how the timing of satisfaction of their performance obligations relates to the typical timing of payment and the effect that those factors have on the contract asset and contract liability balances. HKFRS 15.117 states that the explanation provided may use qualitative information.

HKFRS 15.118 In addition, entities are required to explain, qualitatively and quantitatively, any significant changes in contract assets and liabilities balances during the period. The following non-exhaustive list of items should be disclosed, if significant:

- changes due to business combinations;
- cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress;
- a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification;
- impairment of a contract asset;
- a change in the time frame for a right to consideration to become unconditional (i.e. for a contract asset to be reclassified to a receivable); and
- a change in the time frame for a performance obligation to be satisfied (i.e. for the recognition of revenue arising from a contract liability).

The approach taken will depend on the fact and circumstances of the entity. For example, in this illustration, HK Listco has provided information explaining the significant fall in the contract asset balance for construction contracts in the narrative notes which explains the link between the payment terms and the contract assets and contract liabilities, as the change arose from a change in HK Listco's typical payment terms.

end of the retention period as the group's entitlement to this final payment is conditional on the group's work satisfactorily passing inspection[193].

- Made-to-order electronic products

  The group typically receives a 10% deposit on acceptance of the order. The remainder of the consideration is payable on the earlier of the delivery of the finished goods and notice from the customer to cancel the order. If the customer cancels the order then the group is immediately entitled to receive payment for work done to date.

HKFRS 15.116(c) The amount of revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous periods is $1,538,000 (2019: $1,083,000), mainly due to the changes in estimate of the stage of completion of certain construction contracts.

HKAS 1.61 The amount of contract assets that is expected to be recovered after more than one year is $730,000 (2019: $512,000), all of which relates to retentions[185].

(b) Contract liabilities

HKFRS 15.116(a)

	2020 $'000	2019[190] $'000
Contract liabilities		
Construction contracts		
- Billings in advance of performance	**3,605**	1,039
Made-to-order manufacturing arrangements		
- Billings in advance of performance	**438**	567
Property development		
- Forward sales deposits and instalments received	**9,184**	5,567
	13,227	7,173

HKFRS 15.117 Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

- Construction contracts and made-to-order manufacturing arrangements

  When the group receives a deposit before the production activity commences this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the project exceeds the amount of the deposit. The group typically receives a 10% deposit on acceptance of manufacturing orders and starting from 2020 it has become common practice on all the group's construction contracts to require a 20% deposit before work

193 Retention assets are by definition only recognised when the entity has assessed that it is entitled to the consideration and that any remaining uncertainty surrounding this amount is sufficiently low, such that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur (as per HKFRS 15.56). However, HKFRS 15 does not give specific guidance on whether a right to the retention payment should be presented as a receivable or a contract asset.

In this illustration, HK Listco has presented the amount as a contract asset until the relevant inspection is passed. This indicates that HK Listco regards retentions as still being subject to conditions other than solely the passage of time. This presentation is consistent with the guidance found in Example 27 (paragraphs IE141-IE142) of the Illustrative Examples that accompany HKFRS 15, which explains that a contract does not contain a significant financing component simply because a retention clause results in deferred payment, as the contract requires the amount to be retained for reasons other than the provision of finance.

An alternative view is that the right to the retention payment is unconditional and would therefore be presented as a receivable. This view is consistent with the revenue recognition criteria i.e. the entity has no outstanding performance obligations in the context of HKFRS 15 and is confident that in due course the entity will receive the full amount of the retention.

commences. In previous periods the amount of the deposit, if any, was negotiated on a case by case basis with customers.

- Property development

The group receives 10% of the contract value as a deposit from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability until the properties are completed and legally assigned to the customer. The rest of the consideration is typically paid when legal assignment is completed.

However, 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. Such advance payment schemes result in contract liabilities being recognised throughout the remaining property construction period for the full amount of the contract price. In addition, the contract liability will be increased by the amount of interest expense being accrued by the group to reflect the effect of any financing benefit obtained from the customers during the period between the payment date and the completion date of legal assignment. As this accrual increases the amount of the contract liability during the period of construction, it therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer.

	Movements in contract liabilities[194]	**2020**	2019
		$'000	$'000
HKFRS 15.116(a)	Balance at 1 January	**7,173**	6,298
HKFRS 15.116(b)	Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(3,536)**	(3,873)
	Increase in contract liabilities as a result of billing in advance of construction and manufacturing activities	**3,689**	1,206
	Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the year in respect of properties still under construction as at the year end	**4,916**	3,024
	Increase in contract liabilities as a result of accruing interest expense on advances	**985**	518
HKFRS 15.116(a)	Balance at 31 December	**13,227**	7,173

HKAS 1.61

The amount of billings in advance of performance and forward sales deposits and instalments received expected to be recognised as income after more than one year is $3,014,000 (2019: $1,774,000)[185].

HKFRS 15.116-118

[194] As noted in footnotes 190 and 192, HKFRS 15 requires entities to disclose the opening and closing balances of contract assets and liabilities, to explain how the timing of satisfaction of their performance obligations relates to the typical timing of payment and the effect that those factors has on the contract asset and contract liability balances, and to disclose any significant changes in contract assets and liabilities balances during the period.

HKFRS 15.116(b)

In addition, HKFRS 15.116(b) explicitly requires disclosure of the amount of revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period. For this reason, rather than providing narrative explanation about the significant changes, entities may find it simpler to provide a reconciliation of the opening and closing contract liability balances, as is illustrated here, to satisfy the disclosure requirements. Such reconciliation is not required and other approaches may be acceptable, provided that the required disclosures are provided.

21 TRADE AND OTHER RECEIVABLES

HKAS 1.77
HKAS 1.78(b)

		2020 $'000	2019 $'000
	Trade debtors and bills receivable, net of loss allowance	**73,638**	56,776
	Other debtors (note 23)	**400**	546
HKFRS 7.8(f)	Financial assets measured at amortised cost	**74,038**	57,322
	Derivative financial instruments:		
	- held as cash flow hedging instruments (notes 33(c),(d) & (f)(i))	**2,468**	2,954
HKFRS 7.8(a)	- other derivatives (notes 33(d)(ii) & (f)(i))	**253**	659
		2,721	3,613
	Insurance reimbursement (note 31)	**2,158**	1,752
	Deposits and prepayments	**714**	190
		79,631	62,877

HKAS 1.61

The amount of derivative financial instruments, deposits and prepayments expected to be recovered or recognised as expense after more than one year is $1,423,000 (2019: $1,284,000). All of the other trade and other receivables, apart from those mentioned in notes 20 and 31 are expected to be recovered or recognised as expense within one year[185].

Ageing analysis

A16(4)(2)(a)

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows[195]*:*

	2020	2019
	$'000	$'000
Within 1 month	***59,767***	*44,034*
1 to 2 months	***10,403***	*9,557*
2 to 3 months	***2,081***	*1,911*
Over 3 months but within 6 months	***1,387***	*1,274*
	73,638	*56,776*

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

Trade debtors and bills receivable are due[196] within [•] days from the date of billing. Further details on the group's credit policy and credit risk arising from trade debtors and bills receivable are set out in note 33(a).

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

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

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

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

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

- paragraphs 35A-38 of HKFRS 7 require disclosure of an entity's credit risk management practices, quantitative and qualitative information about amounts arising from expected credit losses and the entity's credit risk exposure (see note 33(a) to these illustrative financial statements).
- paragraph 39(a) of HKFRS 7 requires disclosure of summary quantitative data about an entity's exposure to liquidity risk in the form of a maturity analysis for financial liabilities that shows the remaining contractual maturities (see note 33(b) to these illustrative financial statements).

196 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.

22 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

HKAS 7.45

	2020 $'000	2019 $'000
Deposits with banks and other financial institutions	**42,248**	53,059
Cash at bank and on hand	**34,332**	52,029
Cash and cash equivalents in the consolidated statement of financial position	**76,580**	105,088
Bank overdrafts (note 26)	**(1,266)**	(2,789)
Cash and cash equivalents in the consolidated cash flow statement	**75,314**	102,299

(b) Reconciliation of profit before taxation to cash generated from operations[197]:

		Note	**2020 $'000**	2019 $'000
HKAS 7.18(b)	Profit before taxation		**149,258**	127,683
	Adjustments for:			
	Net valuation gain on investment property	11(a)	**(18,260)**	(6,520)
	Depreciation	5(c)	**31,448**	26,175
	Impairment loss on plant and machinery	5(c)	**1,200**	-
	Amortisation of intangible assets	5(c)	**2,680**	1,500
	Impairment of goodwill	5(c)	**184**	-
	Finance costs	5(a)	**20,618**	16,166
	Dividend income from investments	4	**(610)**	(572)
	Interest income	4	**(1,363)**	(1,008)
	Share of profits less losses of associates	15	**(13,830)**	(12,645)
	Share of profits of joint venture	16	**(10,670)**	(10,135)
	Loss on sale of property, plant and equipment	4	**83**	-
	Net realised and unrealised gain on investments not held for trading purposes	4	**(3,684)**	-
	Equity-settled share-based payment expenses	5(b)	**1,658**	1,625
	COVID-19-related rent concessions received	11(c)	**(540)**	-
HKAS 7.28	Foreign exchange loss/(gain)		**2,490**	(2,417)
	Changes in working capital:			
	Increase in inventories and other contract costs		**(36,791)**	(30,230)
HKAS 7.15	Increase in trading securities		**(311)**	(3,780)
	Increase in trade and other receivables		**(17,241)**	(18,215)
	Decrease/(increase) in contract assets		**12,787**	(4,421)
	Increase in trade and other payables		**17,360**	33,628
	Increase in contract liabilities		**6,054**	875
	Increase in provision for electronic product warranties		**2,339**	1,800
	Increase in net defined benefit retirement obligation		**665**	290
	Cash generated from operations		**145,524**	119,799

HKAS 7.18 [197] In these illustrative financial statements, HK Listco Ltd has elected to present cash flows from operating activities using the indirect method, whereby profit or loss is adjusted for the effects of non-cash transactions, accruals and deferrals, and items of income or expense associated with investing or financing cash flows in order to arrive at "Cash generated from operations". An entity may alternatively present operating cash flows using the direct method, disclosing major classes of gross cash receipts and payments related to operating activities.

HKAS 7.44A – 44E **(c) Reconciliation of liabilities arising from financing activities[198, 199]**

The table below details changes in the group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the group's consolidated cash flow statement as cash flows from financing activities.

		Bank loans and other borrowings $'000 (Note)	Unsecured debentures $'000 (Note 25)	Convertible notes $'000 (Note 25)	Redeemable preference shares $'000 (Note 25)	Lease liabilities $'000 (Note 27)	Interest rate swaps held to hedge borrowings (assets)[200] $'000 (Note 33(f)(i))	Interest rate swaps held to hedge borrowings (liabilities) $'000 (Note 33(f)(i))	Conversion option embedded in convertible notes $'000 (Note 33(f)(i))	Total $'000
	At 1 January 2020	91,508	5,000	9,356	3,912	68,473	(1,489)	52	171	176,983
HKAS 7.44B(a)	**Changes from financing cash flows:**									
	Proceeds from new bank loans	6,100	-	-	-	-	-	-	-	6,100
	Repayment of bank loans	(10,480)	-	-	-	-	-	-	-	(10,480)
	Proceeds from new loans from fellow subsidiaries	1,759	-	-	-	-	-	-	-	1,759
	Capital element of lease rentals paid	-	-	-	-	(17,071)	-	-	-	(17,071)
	Interest element of lease rentals paid	-	-	-	-	(4,587)	-	-	-	(4,587)
	Other borrowing costs paid	(18,768)	(400)	(550)	-	-	-	-	-	(19,718)
	Dividends paid on redeemable preference shares	-	-	-	(200)	-	-	-	-	(200)
	Total changes from financing cash flows	(21,389)	(400)	(550)	(200)	(21,658)	-	-	-	(44,197)
HKAS 7.44B(c)	**Exchange adjustments**	(392)	-	-	-	-	-	-	-	(392)
HKAS 7.44B(d)	**Changes in fair value**	-	-	-	-	-	(175)	76	1	(98)
HKAS 7.44B(e)	**Other changes:**									
	Increase in lease liabilities from entering into new leases during the period	-	-	-	-	19,430	-	-	-	19,430
	COVID-19-related rent concessions received (note 11(c))	-	-	-	-	(540)	-	-	-	(540)
	Interest expenses (note 5(a))	14,793	400	736	-	4,587	-	-	-	20,516
	Capitalised borrowing costs	3,780	-	-	-	-	-	-	-	3,780
	Dividends on redeemable preference shares (note 5(a))	-	-	-	200	-	-	-	-	200
	Total other changes	18,573	400	736	200	23,477	-	-	-	43,386
	At 31 December 2020	**88,300**	**5,000**	**9,542**	**3,912**	**70,292**	**(1,664)**	**128**	**172**	**175,682**

Note: Bank loans and other borrowings consist of bank loans, loans from non-controlling shareholders of a subsidiary and loans from fellow subsidiaries as disclosed in notes 25 and 26.

HKAS 7.44A-E [198] HKAS 7 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. HKAS 7 does not prescribe a specific method to fulfil these disclosure requirements. However, HKAS 7 indicates that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. In this illustration, HK Listco provides such reconciliation to satisfy the disclosure requirement.

HKAS 1.38 [199] Comparative information is required for the reconciliation of liabilities arising from financing activities, as HKAS 7 does not give a specific exemption in this regard.

HKAS 7.44C [200] The disclosure requirements by HKAS 7 also apply to changes in financial assets (e.g. assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

		Bank loans and other borrowings $'000 (Note)	Unsecured debentures $'000 (Note 25)	Convertible notes $'000 (Note 25)	Redeemable preference shares $'000 (Note 25)	Lease liabilities $'000 (Note 27)	Interest rate swaps held to hedge borrowings (assets) $'000 (Note 33(f)(i))	Interest rate swaps held to hedge borrowings (liabilities) $'000 (Note 33(f)(i))	Conversion option embedded in convertible notes $'000 (Note 33(f)(i))	Total $'000
	At 1 January 2019	89,840	5,000	9,170	-	64,763	(1,397)	40	169	167,585
HKAS 7.44B(a)	**Changes from financing cash flows:**									
	Proceeds from new bank loans	6,390	-	-	-	-	-	-	-	6,390
	Repayment of bank loans	(4,919)	-	-	-	-	-	-	-	(4,919)
	Proceeds from new loans from associates	906	-	-	-	-	-	-	-	906
	Capital element of lease rentals paid	-	-	-	-	(14,525)	-	-	-	(14,525)
	Interest element of lease rentals paid	-	-	-	-	(3,967)	-	-	-	(3,967)
	Other borrowing costs paid	(14,229)	(400)	(550)	-	-	-	-	-	(15,179)
	Proceeds from the issue of redeemable preference shares	-	-	-	4,000	-	-	-	-	4,000
	Payment of transaction costs on issue of redeemable preference shares	-	-	-	(88)	-	-	-	-	(88)
	Dividends paid on redeemable preference shares	-	-	-	(200)	-	-	-	-	(200)
	Total changes from financing cash flows	(11,852)	(400)	(550)	3,712	(18,492)	-	-	-	(27,582)
HKAS 7.44B(c)	**Exchange adjustments**	(453)	-	-	-	-	-	-	-	(453)
HKAS 7.44B(d)	**Changes in fair value**	-	-	-	-	-	(92)	12	2	(78)
HKAS 7.44B(e)	**Other changes:**									
	Increase in lease liabilities from entering into new leases during the period	-	-	-	-	18,235	-	-	-	18,235
	Interest expenses (note 5(a))	10,943	400	736	-	3,967	-	-	-	16,046
	Capitalised borrowing costs	3,030	-	-	-	-	-	-	-	3,030
	Dividends on redeemable preference shares (note 5(a))	-	-	-	200	-	-	-	-	200
	Total other changes	13,973	400	736	200	22,202	-	-	-	37,511
	At 31 December 2019	91,508	5,000	9,356	3,912	68,473	(1,489)	52	171	176,983

Note: Bank loans and other borrowings consist of bank loans, loans from non-controlling shareholders of a subsidiary and loans from fellow subsidiaries as disclosed in notes 25 and 26.

HKFRS 16.53(g)

(d) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2020 $'000	2019 $'000
Within operating cash flows	**5,910**	5,310
Within investing cash flows	**9,868**	6,847
Within financing cash flows	**21,658**	18,492
	37,436	30,649

These amounts relate to the following:

	2020 $'000	2019 $'000
Lease rentals paid	**28,108**	23,802
Purchase of leasehold property	**9,868**	6,847
	37,976	30,649

HKAS 7.40

(e) Net cash outflow arising from the acquisition of a subsidiary

The recognised amounts of assets acquired and liabilities at the date of acquisition of the subsidiary comprise the following:

	$'000
Patents and trademarks (note 12)	2,000
Other receivables, deposits and prepayments	47
Cash	45
Other payables and accrued charges	(92)
Total consideration paid in cash	2,000
Less: cash of subsidiary acquired	(45)
	1,955

23 LOANS TO DIRECTORS AND ENTITIES CONNECTED WITH DIRECTORS[201]

Loans to directors[202] of the company and entities connected with directors disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

C(DIBD)R.15(3)

(a) Loan made by a third party under a guarantee given by the company

Name of borrower	Mr PK Smith
Position	Director
Particulars of guarantee given	Guarantee given to a finance company in respect of a loan of $3,000,000
Maximum liability under the guarantee	
- at 1 January 2019	$800,000
- at 31 December 2019 and 1 January 2020	$500,000
- at 31 December 2020	$200,000
Amount paid or liability incurred under the guarantee	$Nil (2019: $Nil)

The guarantee is given without recourse to the director. The guarantee will expire on 31 December 2023 or when the director ceases to be employed by the company, if earlier. The benefit in kind which arises from providing this guarantee on behalf of the director is recognised over the term of the guarantee as part of directors' emoluments.

The directors do not consider it probable that a claim will be made against the company under the guarantee.

C(DIBD)R.15-18

201 The disclosure requirements regarding directors' loans, quasi-loans and certain other dealings in favour of directors are set out in sections 15-18 of C(DIBD)R. The requirements under the new CO mainly restate the disclosure requirements of the predecessor Ordinance. However, the scope of the disclosure requirements has been changed as follows:

- the scope has been expanded to include connected entities of the directors if the reporting entity is a "specified"* company. The definition of "connected entity" can be found in sections 484, 486-488 of the CO and includes both individuals, such as family members and business partners, and business entities, such as investees.
- "Other officers" (i.e. managers and companies secretaries) have been deleted from the scope, i.e. financing transactions with other officers are no longer required to be disclosed.

* For the purpose of providing disclosures under C(DIBD)R, companies are divided into two categories: "specified" companies and non-specified companies. The companies which are "specified" are:

a) a Hong Kong incorporated public company
b) a Hong Kong incorporated subsidiary of a Hong Kong incorporated public company
c) a non-Hong Kong incorporated company but is listed on the Hong Kong Stock Exchange

Non-specified companies are those that are none of the above.

As HK Listco is a "specified" company, connected entities of its directors also fall within the scope of the disclosures about financing transactions.

C(DIBD)R.13(2)

202 For the purpose of the disclosures on loans, quasi-loans, credit transactions and related guarantees provided, "directors" include shadow directors (i.e. a person whose directions or instructions which the directors, or a majority of the directors, of the company are accustomed to act).

C(DIBD)R.15(3) **(b) Loans made by the company**

Name of borrower	YKN Enterprises Ltd	Mr A Brown
Relationship with the company	Controlled by Mr YK Ng, director of the company	Director of the ultimate holding company of the company
Terms of the loan		
- duration and repayment terms	Repayable on demand	Repayable on demand
- loan amount	$156,700	$460,000
- interest rate	[●]% above company's borrowing rate	[●]% above company's borrowing rate
HKFRS 7.36(b) - security	None	Property*
Balance of the loan		
- at 1 January 2019	Nil	Nil
- at 31 December 2019 and 1 January 2020	$106,300	$440,000
- at 31 December 2020	$ Nil	$400,000
Maximum balance outstanding		
- during 2020	$106,300	$440,000
- during 2019	$156,700	$460,000

There was no amount due but unpaid, nor any loss allowance made against the principal amount of or interest on these loans at 31 December 2019 and 2020.

* The company does not have the right to sell or repledge the property held as collateral in the absence of default by the director of the ultimate holding company.[203] The group considers that the credit risk arising from the loan to the director of the ultimate holding company is significantly mitigated by the property held as collateral, with reference to the estimated market value of the property as at 31 December 2020.[204]

HKFRS 7.15 & 38 203 Note that when an entity recognises financial or non-financial assets during the period as a result of taking possession of collateral it accepted as security or calling on other credit enhancements (for example, guarantees), paragraph 38 of HKFRS 7 requires the entity to disclose the nature and carrying amounts of such assets held at the reporting date. If such assets are not readily convertible into cash, further disclosure needs to be provided regarding the entity's policies for disposing of these assets or for using them in its operations.

In addition, if the entity is permitted to sell or repledge the collateral it has accepted in the absence of default by the owner of the collateral, paragraph 15 of HKFRS 7 requires certain specific disclosure in the financial statements, including the fair value of the collateral accepted and the collateral sold or repledged as well as other material terms and conditions associated with the use of this collateral.

HKFRS 7.36(b) 204 Paragraph 36(b) of HKFRS 7 requires a description of collateral held as a security and other credit enhancements, and their financial effect. An example of disclosure about financial effect given in paragraph 36(b) is a quantification of the extent to which credit risk is mitigated by the collateral and other credit enhancement.

24 TRADE AND OTHER PAYABLES

HKAS 1.77

		2020	2019
		$'000	$'000
	Bills payable	**91,705**	73,859
	Creditors and accrued charges	**59,708**	60,648
	Dividends payable on redeemable preference shares	**100**	100
HKAS 24.18(b)	Amounts due to ultimate holding company	**4,500**	4,500
HKAS 24.18(b)	Amounts due to fellow subsidiaries	**4,700**	4,200
HKFRS 7.8(g)	Financial liabilities measured at amortised cost	**160,713**	143,307
	Derivative financial instruments:		
	- held as cash flow hedging instruments (notes 33(c), (d) & (f)(i))	**168**	72
HKFRS 7.8(e)	- other derivatives (note 33(f)(i))	**172**	171
		340	243
	Financial guarantees issued[93]	**6**	8
		161,059	143,558

HKAS 1.61

The amount of derivative financial instruments and financial guarantees issued expected to be recognised as income after more than one year is $111,000 (2019: $85,000). All of the other trade and other payables (including amounts due to related parties), apart from those mentioned in note 20, are expected to be settled or recognised as income within one year or are repayable on demand.[185]

A16(4)(2)(b)

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows[195]:

	2020	*2019*
	$'000	*$'000*
Within 1 month	***96,434***	*87,435*
1 to 3 months	***52,114***	*45,962*
Over 3 months but within 6 months	***1,543***	*1,106*
	150,091	*134,503*

25 NON-CURRENT INTEREST-BEARING BORROWINGS

HKFRS 7.7 **(a) The analysis of the carrying amount of non-current interest-bearing borrowings is as follows:**

		2020	2019
		$'000	$'000
	Bank loans (note 26)		
	- secured	**7,680**	9,054
	- unsecured	**43,003**	41,023
		50,683	50,077
	Unsecured debentures 8% 2026 (note 25(b)(i))	**5,000**	5,000
	Convertible notes (note 25(b)(ii))	**9,542**	9,356
	Redeemable preference shares (note 25(b)(iii))	**3,912**	3,912
	Loans from non-controlling shareholders of a subsidiary (note 25(b)(iv))	**3,000**	3,000
HKAS 24.18(b)	Loans from fellow subsidiaries (note 25(b)(v))	**2,665**	906
		74,802	72,251

HKFRS 7.8(g)
HKAS 1.61

All of the non-current interest-bearing borrowings are carried at amortised cost. None of the non-current interest-bearing borrowings is expected to be settled within one year.[185]

HKFRS 7.7 & 31 **(b) Significant terms and repayment schedule of non-bank borrowings[205]**

(i) Debentures

The debentures bear interest at 8% per annum, are unsecured and repayable on 31 December 2026. The debentures would become repayable on demand if the debt to equity ratio of the issuing entity exceeded [●] to [●].[206]

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[205] Paragraph 31 of HKFRS 7 contains a general requirement to disclose information that enables users of an entity's financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period. This requirement is then supplemented by requirements concerning qualitative information and quantitative information, as further explained in the footnotes to note 33 to these illustrative financial statements.

None of these requirements in HKFRS 7 specifically require the disclosure of significant terms and conditions of all financial instruments. Nevertheless such information may be pertinent to help the user of the financial statements understand the risks that arise from the financial instruments held by the entity. For example, the disclosures concerning covenants attaching to borrowings, which would make the borrowings repayable on demand in certain circumstances, may be pertinent to assessing the liquidity risk faced by an entity.

Judgement is therefore required to be exercised in determining when it is necessary to make such a disclosure in respect of any given financial instrument, or a class of financial instruments sharing similar risk characteristics, and, if so, how much detail to disclose and whether to disclose it together with the notes to the statement of financial position, or in a separate note dealing with the entity's financial instrument risk management policies and analyses (i.e. as illustrated here in note 33 to these illustrative financial statements).

[206] If there have been any breaches of loan agreements during the period further disclosure may be required by paragraphs 18 and 19 of HKFRS 7.

(ii) Convertible notes

A16(10)(1)

On 31 December 2017, the company issued 2 tranches, Tranche A and B, of 5,000,000 convertible notes. Each tranche has a face value of HK$5,000,000 and a maturity date of 31 December 2022. The notes bear interest at [●]% per annum and are unsecured.

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

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

Notes of either tranche, in respect of which conversion rights have not been exercised, will be redeemed at face value on 31 December 2022.

(iii) Redeemable preference shares

A16(10)(3)

On 1 January 2018, the group issued 4,000,000 redeemable preference shares, which are redeemable at face value of $4,000,000 on 31 December 2024. Dividends are set at 5% of the face value and are payable semi-annually in arrears. Preference shareholders' rights are described in note 32(c)(i).

(iv) Loans from non-controlling shareholders of a subsidiary

The loans from a non-controlling shareholders of a subsidiary bear interest at prime rate plus [●]% per annum, are unsecured and are repayable on 31 December 2023.

(v) Loans from fellow subsidiaries

HKAS 24.18(b)

The loans from the fellow subsidiaries bear interest at prime rate plus [●]% per annum, are unsecured and repayable on 31 December 2025.

HKFRS 7.7 & 31

26 BANK LOANS AND OVERDRAFTS

A16(22)

At 31 December 2020, the bank loans and overdrafts were repayable as follows:

	2020 $'000	2019 $'000
Within 1 year or on demand	**33,218**	40,314
After 1 year but within 2 years	**5,260**	3,375
After 2 years but within 5 years	**40,423**	40,098
After 5 years	**5,000**	6,604
	50,683	50,077
	83,901	90,391

At 31 December 2020, the bank loans and overdrafts were secured as follows:

	2020 $'000	2019 $'000
Unsecured bank overdrafts (note 22)	**1,266**	2,789
Bank loans		
- secured	**21,175**	37,165
- unsecured	**61,460**	50,437
	83,901	90,391

HKAS 16.74(a)

At 31 December 2020, the banking facilities of the group were secured by mortgages over land and buildings with an aggregate carrying value of $89,255,000 (2019: $75,087,000) and first floating charges over other property, plant and equipment with an aggregate value of $13,910,000 (2019: $16,792,000). Such banking facilities amounted to $91,000,000 (2019: $75,000,000). The facilities were utilised to the extent of $33,284,000 (2019: $52,065,000).

HKFRS 7.31

All of the group's banking facilities are subject to the fulfilment of covenants relating to certain of the group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the group were to breach the covenants the drawn down facilities would become payable on demand. The group regularly monitors its compliance with these covenants. Further details of the group's management of liquidity risk are set out in note 33(b). As at 31 December 2020, none of the covenants relating to drawn down facilities had been breached (2019:$ nil).[205, 206]

[*Note that as per HKAS 1.74-75, if a covenant is breached before the reporting date with the effect that a liability becomes repayable on demand, the liability must be classified as a current liability at the reporting date unless the lender has agreed to provide a sufficient grace period, and that agreement was obtained before the reporting date. Close attention should be paid to these requirements if the entity is at risk of breaching its covenants, for example as a result of the COVID-19 pandemic, and disclosures should be updated to be consistent with the facts of the entity's circumstances*]

27 LEASE LIABILITIES

A16(22)

At 31 December 2020, the lease liabilities were repayable as follows[207]:

	2020 $'000	2019 $'000
Within 1 year	**21,329**	15,271
After 1 year but within 2 years	**20,974**	15,289
After 2 years but within 5 years	**24,166**	34,501
After 5 years	**3,823**	3,412
	48,963	53,202
	70,292	68,473

HKFRS 16.58
HKFRS 7.39(a)

207 Under HKFRS 16, entities need to disclose a maturity analysis of lease liabilities by applying paragraphs 39 and B11 of HKFRS 7 separately from the maturity analysis of other financial liabilities (see note 33(b) to these illustrative financial statements). Similar to other disclosure requirements under HKFRS 7, the standard does not specify the format of the information required, for example, the number of time bands to be used in the maturity analysis (although suggested time bands are set out in paragraph B11 of HKFRS 7). Entities should use their judgement to determine what is appropriate in view of their circumstances and with due regard to the information provided internally to key management personnel.

A16(22)

However, listed entities are required by paragraph 22 to Appendix 16 to analyse their lease liabilities between amounts payable in the next year, amounts payable after one year but within two years, amounts payable after two years but within five years and aggregate amounts payable after five years, from the end of the reporting period, at a minimum.

HKAS 1.71

Under paragraph 71 of HKAS 1, a long-term financial liability is split into current and non-current portions. For financial liabilities that require periodic payments that are applied against both the principal and interest (sometimes referred to as 'amortising loans') like lease liabilities, HKFRS does not provide specific guidance on splitting the current and non-current portions. In our view, an acceptable policy is to determine the current portion as the present value of contractual payments that are due to be settled within twelve months after the reporting period, as is illustrated here. Alternatively, the current portion could be determined as the principal portion of contractual payments that are due to be settled within twelve months after the reporting period. Whichever policy is adopted, it should be applied consistently for all financial liabilities and from one period to the next, to the extent that the effect would be material.

HKAS 19.135

208 HKAS 19 sets out the following objectives for disclosures about defined benefit plans of an entity:

- to explain the characteristics of its defined benefit plans and risks associated with them;
- to identify and explain the amounts in its financial statements arising from its defined benefit plans; and
- to describe how its defined benefit plans may affect the amount, timing and uncertainty of the entity's future cash flows.

HKAS 19.139-150 lists out the disclosures required by the standard. However, HKAS 19.137 explicitly requires that if the disclosures provided in accordance with the requirements in the standard and other HKFRSs are insufficient to meet the above disclosure objectives, the entity should disclose additional information necessary to meet them.

HKAS 19.139

209 HKAS 19.139 lists out the disclosures required in respect of the characteristics of defined benefit plans and risks associated with them, including:

- the nature of the benefits provided by the plan;
- a description of the regulatory framework in which the plan operates;
- a description of any other entity's responsibilities for the governance of the plan, e.g. responsibilities of trustees or board members of the plans;
- a description of the risks to which the plan exposes the entity; and
- a description of any plan amendments, curtailments and settlements.

Entities should consider the level of detail necessary to satisfy the disclosure requirements.

28 EMPLOYEE RETIREMENT BENEFITS

(a) Defined benefit retirement plans[208, 209]

HKAS 19.139(a)

The group makes contributions to two defined benefit retirement plans registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO"), which cover [●]% of the group's employees. The plans are administered by trustees, the majority of which are independent, with their assets held separately from those of the group. The trustees are required by the Trust Deed to act in the best interest of the plan participants and are responsible for setting investment policies of the plans.

Under the plans, a retired employee is entitled to an annual pension payment equal to [●] of final salary for each year of service that the employee provided.

A16(26)(1)
HKAS 19.147(a)
A16(26)(3)

The plans are funded by contributions from the group in accordance with an independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuations of the plans were at 31 December 2020 and were prepared by qualified staff of ABC Company Limited, who are members of the Society of Actuaries of the United States of America, using the projected unit credit method. *The actuarial valuations indicate that the group's obligations under these defined benefit retirement plans are [●]% (2019: [●]%) covered by the plan assets held by the trustees.*

HKAS 19.139(b)

The plans expose the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk. Since the two retirement plans have similar risks and features, information about the two plans is aggregated and disclosed below:[210]

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2020	2019
	$'000	$'000
Present value of wholly or partly funded obligations	**124,884**	113,210
Fair value of plan assets[211]	**(121,000)**	(110,000)
	3,884	3,210

HKAS 1.61
HKAS 19.147(b)

A portion of the above liability is expected to be settled after more than one year.[212] However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The group expects to pay $[●] in contributions to defined benefit retirement plans in 2021.

HKAS 19.138 — 210 If an entity has more than one defined benefit plan, it should assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks.

HKFRS 13.7(a) — 211 Plan assets measured at fair value under HKAS 19 are subject to HKFRS 13's measurement requirements, but are scoped out from HKFRS 13's disclosure requirements as HKAS 19 contains specific disclosure requirements relating to the fair value of plan assets.

HKAS 1.61 — 212 HKAS 1 requires disclosure of the amount expected to be recovered or settled after more than one year, when any balance combines this with amounts expected to be recovered or settled within one year. In our view, where it is not practicable to make such a distinction, it is sufficient if the financial statements state this fact and explain why. See also footnote 60.

HKAS 19.142-143 (ii) Plan assets consist of the following:[213]

	2020	2019
	$'000	$'000
Equity securities:		
- Consumer markets	**21,852**	18,584
- Financial institutions	**31,452**	30,589
- Telecommunication	**16,600**	14,820
	69,904	63,993
Government bonds	**50,493**	45,467
Company's own ordinary shares	**603**	540
	121,000	110,000

All of the equity securities and government bonds and the company's own ordinary shares have quoted prices in active markets. The government bonds have a credit rating of [●] to [●].

HKAS 19.146

At the end of each reporting period, an Asset-Liability Matching study is performed by the trustees to analyse the outcome of the strategic investment policies. The investment portfolio targets a mix of [●]-[●]% in equity securities across a range of industries, [●]-[●]% in government bonds, and [●]-[●]% in other investments. Interest rate risk is managed with the objective of reducing the risk by [●]% by investing in government bonds.[214]

HKAS 19.142 — 213 HKAS 19 requires entities to disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market and those that do not. HKAS 19.142 includes examples of how the plan assets may be distinguished.

HKAS 19.146 — 214 Some plans or entities may use an asset-liability matching strategy to match the amount and timing of cash inflows from plan assets with those of cash outflow from the defined benefit obligation. If such matching strategy has been used by the plans or by the entities, HKAS 19.146 requires the entities to provide information about the strategy, including the use of annuities or other techniques, such as longevity swaps, to manage risk.

HKAS 19.141(c)(ii)&(iii) — 215 Actuarial gains and losses arising from changes in demographic assumptions are required to be disclosed separately from those arising from changes in financial assumptions.

HKAS 19.141(f) — 216 Contributions to the plan by employer should be separately disclosed from contributions by plan participants. In HK Listco's assumed circumstances, the contributions are wholly made by the group (i.e. the employer).

HKAS 19.123-126 — 217 Net interest on the net defined benefit liability (asset) comprises of interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of the asset ceiling.

HKAS 19 does not specify where net interest and service cost should be presented in profit or loss. It also does not specify whether they should be presented separately or as components of a single item of income or expense. An entity should therefore choose an approach, to be applied consistently, to the presentation of net interest and service cost. In order to help identify amounts in the financial statements arising from defined benefit plans, entities should also disclose how and where the costs have been recognised in profit or loss.

HKAS 19.144 — 218 HKAS 19.144 requires entities to disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. Entities should apply judgement to determine which actuarial assumptions are significant to the valuation and therefore require disclosure.

The disclosure of significant actuarial assumptions should be in absolute terms, e.g. as an absolute percentage. When an entity has more than one defined benefit plan and provides disclosures in total, it should disclose the significant actuarial assumptions in the form of weighted averages or relatively narrow ranges.

(iii) Movements in the present value of the defined benefit obligation

HKAS 19.140(a)(ii)

		2020	2019
		$'000	$'000
	At 1 January:	**113,210**	99,400
	Remeasurements:		
HKAS 19.141(c)(ii)	- Actuarial losses arising from changes in demographic assumptions[215]	**35**	18
HKAS 19.141(c)(iii)	- Actuarial losses arising from changes in financial assumptions	**25**	32
		60	50
HKAS 19.141(g)	Benefits paid by the plans	**(7,988)**	(5,500)
HKAS 19.141(a)	Current service cost	**12,809**	13,080
HKAS 19.141(b)	Interest cost	**6,793**	6,180
	At 31 December	**124,884**	113,210

HKAS 19.147(c) The weighted average duration of the defined benefit obligation is [●] years (2019: [●] years).

(iv) Movements in plan assets

HKAS 19.140(a)(i)

		2020	2019
		$'000	$'000
	At 1 January:	**110,000**	96,490
HKAS 19.141(f)	Group's contributions paid to the plans[216]	**13,187**	13,720
HKAS 19.141(g)	Benefits paid by the plans	**(7,988)**	(5,500)
HKAS 19.141(b)	Interest income	**5,750**	5,250
HKAS 19.141(c)(i)	Return on plan assets, excluding interest income	**51**	40
	At 31 December	**121,000**	110,000

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2020	2019
	$'000	$'000
Current service cost	**12,809**	13,080
Net interest on net defined benefit liability[217]	**1,043**	930
Total amounts recognised in profit or loss	**13,852**	14,010
Actuarial losses	**60**	50
Return on plan assets, excluding interest income	**(51)**	(40)
Total amounts recognised in other comprehensive income	**9**	10
Total defined benefit costs	**13,861**	14,020

The current service cost and the net interest on net defined benefit liability are recognised in the following line items in the consolidated statement of profit or loss:[217]

HKAS 19.145 and 173(b)

[219] Entities are required to disclose a sensitivity analysis for significant actuarial assumptions. In accordance with HKAS 19.145, an entity should disclose:

- a sensitivity analysis for each significant actuarial assumption as disclosed under HKAS 19.144 as of the end of the reporting period, showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at that date;
- the methods and assumptions used in preparing the sensitivity analyses and the limitations of those methods; and
- changes from the previous period in the methods and assumptions used in preparing the sensitivity analyses, and the reasons for such changes.

	2020	2019
	$'000	$'000
Cost of sales	**10,655**	10,772
Distribution costs	**1,353**	1,370
Administrative expenses	**1,844**	1,868
	13,852	14,010

(vi) Significant actuarial assumptions[218] (expressed as weighted averages) and sensitivity analysis[219] are as follows:

HKAS 19.144

	2020	2019
Discount rate	**[•]%**	[•]%
Future salary increases	**[•]%**	[•]%

HKAS 19.145

The below analysis shows how the defined benefit obligation would have increased (decreased) as a result of [•]% change in the significant actuarial assumptions:

HKAS 19.145(a)

	Increase in [•]%		**Decrease in [•]%**	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Discount rate	**([•])**	([•])	**[•]**	[•]
Future salary increases	**[•]**	[•]	**([•])**	([•])

HKAS 19.145(b)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plan

The group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its
A16(26)(1) *employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to*
A16(26)(2) *the plan vest immediately.*

29 EQUITY SETTLED SHARE-BASED TRANSACTIONS

HKFRS 2.45

The company has a share option scheme which was adopted on 1 March 2016 whereby the directors of the company are authorised, at their discretion, to invite employees of the group, including directors of any company in the group, to take up options at nil consideration to subscribe for shares of the company[220]. The options vest after one year from the date of grant and are then exercisable within a period of two years. Each option gives the holder the right to subscribe for one ordinary share in the company and is settled gross in shares.

R17.10

[220] Chapter 17 of the Main Board Listing Rules also requires the disclosure of the basis of determining the exercise price under the terms of the share option scheme. This would include separate disclosure of the bases adopted before and after 1 September 2001 if the bases differed and the scheme was still in existence. This information may be disclosed in the annual financial statements or in the directors' report (as has been illustrated in this annual report: see page 17)

(a) The terms and conditions of the grants are as follows:

HKFRS 2.45(a)

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors:			
- on 1 November 2017	200,000	One year from the date of grant	3 years
- on 1 July 2019	1,500,000	One year from the date of grant	3 years
Options granted to employees:			
- on 1 July 2019	5,000,000	One year from the date of grant	3 years
- on 1 May 2020	500,000	One year from the date of grant	3 years
Total share options granted	7,200,000		

(b) The number and weighted average exercise prices of share options are as follows:

HKFRS 2.45(b) & (c)

	2020 Weighted average exercise price	**2020** Number of options '000	2019 Weighted average exercise price	2019 Number of options '000
Outstanding at the beginning of the period	**$6.00**	**6,700**	$6.00	200
Exercised during the period	**$6.00**	**(1,000)**	-	-
Forfeited during the period[221]	**$6.00**	**(200)**	-	-
Granted during the period	**$6.50**	**500**	$6.00	6,500
Outstanding at the end of the period	**$6.04**	**6,000**	$6.00	6,700
Exercisable at the end of the period	**$6.00**	**5,500**	$6.00	200

HKFRS 2.45(c) The weighted average share price at the date of exercise for shares options exercised during the year was $6.60 (2019: not applicable).[222]

HKFRS 2.45(d) The options outstanding at 31 December 2020 had an exercise price of $6.00 or $6.50 (2019: $6.00) and a weighted average remaining contractual life of 1.6 years (2019: 2.5 years).[223]

(c) Fair value[224] of share options and assumptions

HKFRS 2.47
R17.08

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the binomial lattice model.

HKFRS 2.45(b) 221 Grants which expired during the period should also be disclosed separately, if applicable.

HKFRS 2.45(c) 222 If options were exercised on a regular basis throughout the period, the weighted average share price during the period may be disclosed as an alternative.

HKFRS 2.45(d) 223 If the range of exercise prices is wide, the outstanding options could be divided into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received upon the exercise of those options.

HKFRS 13.6(a) 224 Share-based payment transactions accounted for under HKFRS 2 are scoped out from both the measurement and disclosure requirements of HKFRS 13. The fair value of share-based payments therefore continues to be measured and disclosed in accordance with HKFRS 2.

HKFRS 2.47(a)(i)
R17.08

Fair value of share options and assumptions	**2020**	2019
Fair value at measurement date	**$0.40**	$0.50
Share price	**$6.50**	$6.00
Exercise price	**$6.50**	$6.00
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	**[•]%**	[•]%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	**[•] years**	[•] years
Expected dividends	**[•]%**	[•]%
Risk-free interest rate (based on Exchange Fund Notes)	**[•]%**	[•]%

HKFRS 2.47(a)(ii)
R17.08

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends[225]. *Changes in the subjective input assumptions could materially affect the fair value estimate.*

HKFRS 2.47(a)(iii)

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

30 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Current taxation in the consolidated statement of financial position represents:

HKAS 1.77

	2020	2019
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	**13,000**	14,849
Provisional Profits Tax paid	**(6,250)**	(8,639)
	6,750	6,210
Balance of Profits Tax provision relating to prior years	**-**	1,034
	6,750	7,244

R17.08

225 If expected dividends have been adjusted for any publicly available information indicating that future performance is reasonably expected to differ from past performance, then listed issuers are required to disclose an explanation.

(b) Deferred tax assets and liabilities recognised:

(i) Movement of each component of deferred tax assets and liabilities

HKAS 12.81(g)(i) The components of deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Deferred tax arising from:	Revaluation of investment property $'000	Depreciation allowances in excess of the related depreciation $'000	Depreciation charge of right-of-use assets[226] $'000	Revaluation of other properties $'000	Amortisation of capitalised contract costs[227] $'000	Amortisation of other intangibles $'000	Credit loss allowance[228] $'000	Defined benefit retirement plan liability[229] $'000	Provision for product warranties $'000	Convertible notes $'000	Cash flow hedges $'000	Undistributed profits of foreign joint venture $'000	Total $'000
	At 1 January 2019	1,645	9,141	-	256	136	2,363	(655)	(481)	(3,308)	72	599	-	9,768
HKAS 12.81(d)	Effect on deferred tax balances resulting from a change in tax rate (note 6(a))	-	325	-	-	-	-	-	-	-	-	-	-	325
HKAS 12.81(g)(ii)	Charged/(credited) to profit or loss	1,141	(906)	(100)	(339)	(54)	157	(12)	(53)	(315)	(16)	-	8	(489)
HKAS 12.81(a)	Charged/(credited) to reserves	-	-	-	846	-	-	-	-	-	-	(95)	-	751
	At 31 December 2019 and 1 January 2020	2,786	8,560	(100)	763	82	2,520	(667)	(534)	(3,623)	56	504	8	10,355
HKAS 12.81(g)(ii)	Charged/(credited) to profit or loss	1,650	3,618	(110)	(464)	(62)	144	(8)	(119)	(402)	(16)	-	33	4,264
HKAS 12.81(a)	Charged/(credited) to reserves	-	-	-	2,138	-	-	-	-	-	-	(102)	-	2,036
	At 31 December 2020	**4,436**	**12,178**	**(210)**	**2,437**	**20**	**2,664**	**(675)**	**(653)**	**(4,025)**	**40**	**402**	**41**	**16,655**

[226] In this illustration, it is assumed that under the relevant tax jurisdictions lease payments are allowed for tax deductions on a cash basis, while the depreciation charges arising on right-of-use assets and interest on lease liabilities recognised under HKFRS 16 when the group is a lessee are not allowed for tax deduction. The difference therefore results in recognition of a deferred tax asset or liability.

[227] Under HKFRS 15, certain costs that were expensed as incurred may be eligible for capitalisation. In this illustration, it is assumed that under the relevant tax jurisdictions these costs are allowed for tax deductions on a cash basis and the group had already claimed tax deductions for the sales commissions in previous periods (see note 19). It has also been assumed that the eventual amortisation charge of this specific amount would not be tax deductible a second time around. The difference therefore results in recognition of a deferred tax asset.

[228] In this illustration, it is assumed that under the relevant tax jurisdictions credit losses on financial instruments and contract assets are allowed for tax deductions only when they are actually "incurred" from a tax perspective and that additional credit losses recognised upon the initial application of HKFRS 9's ECL model are not allowed for immediate tax deduction. The recognition of these additional ECL therefore results in recognition of a deferred tax asset.

[229] In accordance with HKAS 12.61A, current and deferred tax should be recognised outside profit or loss if the tax relates to items that are recognised outside profit or loss. Under HKAS 19, remeasurements of the net defined benefit liability (asset) are recognised in other comprehensive income, and net interest on the net defined benefit liability (asset) and service cost are recognised in profit or loss. In cases of cash contributions to funded post-employment benefit plans, it may be difficult to determine how the related current income taxes should be allocated between profit or loss and OCI because the cash contribution itself does not affect the profit or loss or OCI and it may not be clear what the cash contribution is funding. In our view, the allocation of the current income tax effect to profit or loss and OCI should reflect the nature of the cash contribution, unless it is impracticable to identify whether the cost, to which the funding relates, affects profit or loss or OCI. We believe that a number of allocation approaches are acceptable if the nature of the cash contribution is unclear, including the following:

- Approach A: allocate current income taxes first to profit or loss, to the extent of the tax effects of the total service cost and net interest recognised in profit or loss in the current period, and then allocate any residual amount to OCI;
- Approach B: allocate the entire amount of current income tax related to contributions to profit or loss; and
- Approach C: allocate the entire amount of income tax related to contributions to OCI.

HK Listco adopts approach B and allocates the entire amount of current income tax related to contributions to profit or loss.

(ii) Reconciliation to the consolidated statement of financial position

HKAS 1.77

	2020	2019
	$'000	$'000
Net deferred tax asset recognised in the consolidated statement of financial position	**(2,539)**	(3,495)
Net deferred tax liability recognised in the consolidated statement of financial position	**19,194**	13,850
	16,655	10,355

(c) Deferred tax assets not recognised

HKAS 12.81(e)

In accordance with the accounting policy set out in note 1(x), the group has not recognised deferred tax assets in respect of cumulative tax losses of $3,560,000 (2019: $2,480,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

HKAS 12.81(f) & 87

At 31 December 2020, temporary differences relating to the undistributed profits of subsidiaries amounted to $793,000 (2019: $640,000). Deferred tax liabilities of $238,000 (2019: $192,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

31 PROVISIONS

Provision for electronic product warranties[230]

		$'000
HKAS 37.84(a)	At 1 January 2020[231]	**20,661**
HKAS 37.84(b)	Additional provisions made[232]	**12,439**
HKAS 37.84(c)	Provisions utilised	**(10,100)**
HKAS 37.84(a)	At 31 December 2020	**23,000**
	Less: amount included under "current liabilities"	**(10,900)**
		12,100

HKAS 37.85

Under the terms of the group's sales agreements, the group will rectify any product defects arising within two years of the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the two years prior to the end of the reporting period. The amount of provision takes into account the group's recent claim experience and is only made where a warranty claim is probable. Where the group has the benefit of product liability insurance, a separate asset is recognised for any expected reimbursement that would be virtually certain if a warranty claim were to be made. As at the end of the reporting period $2,158,000 (2019: $1,752,000) is included within trade and other receivables in current assets in respect of such expected reimbursements (note 21), of which an amount of $1,200,000 (2019: $960,000) is expected to be recovered after more than one year.[185]

HKFRS 15.B29-B30 [230] HKFRS 15 requires an entity to account for a warranty in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* if the warranty is simply a promise to the customer that the product complies with agreed-upon specifications, and it is a standard promise given to customers, whether they ask for it or not. Such warranties are common and are often required by consumer protection legislation.

If, on the other hand, the customer has the option of whether or not to purchase the warranty, or the warranty provides the customer with a distinct service in addition to the assurance that the product complies with the agreed-upon specifications, then HKFRS 15 requires the warranty service to be accounted for as a separate performance obligation. In such cases, an entity needs to allocate part of the promised consideration to the warranty service (in accordance with paragraphs 73 to 86 of HKFRS 15) and recognise the related revenue only when it performs the warranty services, i.e. generally over the warranty period.

In this illustration, the product warranties are simply a promise to the customer that the product complies with agreed-upon specifications and hence the estimated costs of meeting any obligations under the warranties continue to be accounted for as a provision in accordance with HKAS 37.

HKAS 37.84 [231] Comparative information is not required for the analysis of the movements in the provision, as HKAS 37 gives a specific exemption in this regard.

HKAS 37.84(e) [232] It is assumed that the provision has not been discounted on the grounds of materiality. If the provision has been discounted, the increase in the provision arising from the discount unwinding should be separately disclosed.

Sch 4, Part 1, Section 2(1)(b)
HKAS 1.79(b), 106(d)) & 108
HKAS 16.77(f)
HKAS 21.52(b)

32 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the company's individual components of equity between the beginning and the end of the year are set out below[233]:

Company	Note	Share capital $'000	Capital reserve $'000	Property revaluation reserve $'000	Hedging reserve $'000	Fair value reserve (non-recycling) $'000	Retained profits $'000	Total $'000
Balance at 1 January 2019	37	175,000	134	751	869	85	142,022	318,861
Changes in equity for 2019:								
Total comprehensive income for the year		-	-	966	(99)	50	98,572	99,489
Dividends approved in respect of the previous year	32(b)	-	-	-	-	-	(45,000)	(45,000)
Equity settled share-based transactions		-	1,625	-	-	-	-	1,625
Dividends declared in respect of the current year	32(b)	-	-	-	-	-	(27,000)	(27,000)
Balance at 31 December 2019 and 1 January 2020		175,000	1,759	1,717	770	135	168,594	347,975
Changes in equity for 2020:								
Total comprehensive income for the year		-	-	1,405	(128)	90	117,867	119,234
Dividends approved in respect of the previous year	32(b)	-	-	-	-	-	(49,500)	(49,500)
Purchase of own shares	32(c)(iii)	-	-	-	-	-	(3,390)	(3,390)
Shares issued under share option scheme	32(c)(iv)	6,400	(400)	-	-	-	-	6,000
Equity settled share-based transactions		-	1,658	-	-	-	-	1,658
Dividends declared in respect of the current year	32(b)	-	-	-	-	-	(29,850)	(29,850)
Balance at 31 December 2020	37	**181,400**	**3,017**	**3,122**	**642**	**225**	**203,721**	**392,127**

233 As specifically required by section 2(1)(b) of Part 1 of Schedule 4 to the CO, when a company prepares consolidated financial statements, those financial statements should include a note disclosing the movement of the company's reserves.

(b) Dividends[234]

HKAS 1.107

(i) Dividends payable to equity shareholders of the company attributable to the year

	2020	2019
	$'000	$'000
Interim dividend declared and paid of 30 cents per ordinary share (2019: 30 cents per ordinary share)	**29,850**	27,000
HKAS 1.137(a) HKAS 10.13 — Final dividend proposed after the end of the reporting period of 60 cents per ordinary share (2019: 55 cents per ordinary share)	**59,700**	49,500
	89,550	76,500

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

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

	2020	2019
	$'000	$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of 55 cents per share (2019: 50 cents per share)	**49,500**	45,000

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

HKAS 1.79(a)

Dividends on redeemable preference shares are paid semi-annually in arrears at a rate of 5% per annum of the shares' face value on 30 June and 31 December each year as from their issue date of 1 January 2019. Dividends of $100,000 (2019: $100,000) were paid during the period and unpaid dividends of $100,000 (2019: $100,000) were accrued as at 31 December 2020. Dividends on redeemable preference shares are included in finance costs (note 5(a)).

HKAS 1.107 & 113 [234] Paragraph 107 of HKAS 1 requires entities to disclose either in the statement of changes in equity, or in the notes, the amount of dividends recognised as distributions to owners during the period and the related amount per share.

(c) Share capital

(i) Issued share capital

	2020 No. of shares ('000)	2020 $'000	2019 No. of shares ('000)	2019 $'000
HKAS 1.79(a)(ii) & (iv) **Ordinary shares, issued and fully paid:**				
At 1 January	**90,000**	**175,000**	90,000	175,000
Bonus issue	**9,000**	**-**	-	-
Shares repurchased[235]	**(500)**	**-**	-	-
Shares issued under share option scheme	**1,000**	**6,000**	-	-
Transfer from capital reserve	**-**	**400**	-	-
At 31 December	**99,500**	**181,400**	90,000	175,000

HKAS 1.79(a)(iii) In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the company do not have a par value.

CP The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

	2020 No. of shares ('000)	2020 $'000	2019 No. of shares ('000)	2019 $'000
Redeemable preference shares, issued and fully paid:				
At 1 January	**4,000**	**4,000**	-	-
Shares issued	**-**	**-**	4,000	4,000
At 31 December	**4,000**	**4,000**	4,000	4,000

CP Redeemable preference shares do not carry the right to vote. On liquidation of the company the redeemable preference shareholders would participate only to the extent of the face value of the shares adjusted for any dividends in arrears. Based on their terms and conditions, the redeemable preference shares have been presented as liabilities in the statement of financial position. Further details of these terms are set out in note 25(b)(iii).

(ii) Bonus issue

C(DR)R.5 On 8 January 2020, the company made a bonus issue on the basis of 1 bonus share for every 10 existing shares held by shareholders in recognition of their continual support. A total of 9,000 ordinary shares were issued pursuant to the bonus issue.

(iii) Purchase of own shares

A16(10)(4)
R10.06(4)(b)

During the year, the company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	*Number of shares repurchased*	*Highest price paid per share*	*Lowest price paid per share*	*Aggregate price paid*
		$	*$*	*$'000*
February 2020	*300,000*	*6.65*	*6.55*	*2,040*
May 2020	*200,000*	*6.80*	*6.70*	*1,350*
				3,390

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid on the repurchased shares of $3,390,000 was paid wholly out of retained profits.[235]

(iv) Shares issued under share option scheme

A16(10)(2)

On 1 February 2020, options were exercised to subscribe for 1,000,000 ordinary shares in the company at a consideration of $6,000,000, all of which was credited to share capital. $400,000 was transferred from the capital reserve to the share capital account in accordance with policy set out in note 1(w)(iii).

HKAS 1.79(b)

(d) Nature and purpose of reserves

(i) Capital reserve

The capital reserve comprises the following:

- the portion of the grant date fair value of unexercised share options granted to employees of the company that has been recognised in accordance with the accounting policy adopted for share-based payments in note 1(w)(iii); and
- the amount allocated to the unexercised equity component of convertible notes issued by the company recognised in accordance with the accounting policy adopted for convertible notes in note 1(v)(i).

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in notes 1(i)(ii) and 1(aa).

[235] 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.

(iii) Property revaluation reserve

The property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 1(k).

HKAS 16.77(f) The property revaluation reserve of the company is distributable to the extent of $567,000 (2019: $250,000)[236].

(iv) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 1(i)(i).

(v) Fair value reserve (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 1(g)).

HKAS 1.134 & 135

(e) Capital management[237]

The group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and lease liabilities but excludes redeemable preference shares) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

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236 As discussed in footnote 14, Part 6 of the new CO "Distribution of profits and assets" contains provisions that deal with distribution of profits and assets by a Hong Kong incorporated company to its members. The provisions of Part 6 are closely based on the equivalent requirements of the predecessor Companies Ordinance (Cap. 32). For example, under section 292(5) of the new CO, property revaluation reserve can be treated as realised to the extent that depreciation charged to the statement of profit or loss/the statement of profit or loss and other comprehensive income on revalued assets exceeds the amount that would have been charged based on the historical cost of those assets. This is consistent with the previous requirements in section 79K(2) of the predecessor Companies Ordinance.

HKAS 1.134 & 135

237 Paragraphs 134 and 135 of HKAS 1 require an entity to disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing "capital", based on the information provided internally to the entity's key management personnel. Because of this "management focus", the extent and level of disclosures will vary from one entity to another. As acknowledged in paragraph 135(b) of HKAS 1, the "capital" that an entity manages may not necessarily be equal to equity as defined in HKFRSs and might also include or exclude some other components. For example, it might include some financial instruments, such as preference shares, which are presented as liabilities in the financial statements, and exclude some items, such as components of equity arising from cash flow hedges. To facilitate comparison across different entities, paragraph 135(a)(i) of HKAS 1 requires an entity to provide a description of what it manages as "capital".

Paragraphs 134 and 135 of HKAS 1 do not prescribe the format of the information required to be disclosed and entities should exercise judgement in deciding the appropriate way to satisfy these requirements. In this regard, paragraphs IG10-IG11 of HKAS 1 provide two examples, one for an entity that is not a regulated financial institution and the other for an entity that is subject to externally imposed capital requirements (see footnote 238). These examples serve as a starting point for entities to consider what information to disclose to reflect their individual circumstances.

During 2020, the group's strategy, which was unchanged from 2019, was to maintain the adjusted net debt-to-capital ratio at the lower end of the range [●]% to [●]%. In order to maintain or adjust the ratio, the group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The group's adjusted net debt-to-capital ratio at 31 December 2020 and 2019 was as follows:

		Note	2020	2019
			$'000	$'000
Current liabilities:				
Bank loans and overdrafts		26	**33,218**	40,314
Lease liabilities		27	**21,329**	15,271
			54,547	55,585
Non-current liabilities:				
Interest-bearing borrowings		25	**74,802**	72,251
Lease liabilities		27	**48,963**	53,202
Total debt			**178,312**	181,038
Add:	Proposed dividends	32(b)	**59,700**	49,500
Less:	Cash and cash equivalents	22	**(76,580)**	(105,088)
	Redeemable preference shares	25	**(3,912)**	(3,912)
Adjusted net debt			**157,520**	121,538
Total equity			**560,447**	487,673
Add:	Redeemable preference shares	25	**3,912**	3,912
Less:	Hedging reserve	32(d)	**(1,897)**	(2,378)
	Proposed dividends	32(b)	**(59,700)**	(49,500)
Adjusted capital			**502,762**	439,707
Adjusted net debt-to-capital ratio			**31%**	28%

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements[238].

HKAS 1.135 & 136 238 When an entity is subject to externally imposed capital requirements (for example, a bank that is subject to the maintenance of a specified capital adequacy ratio imposed by the relevant banking regulator), paragraph 135 of HKAS 1 requires disclosure of the nature of those requirements and how those requirements are incorporated into the management of capital. If the entity has not complied with these requirements, the consequences of such non-compliance should also be disclosed.

An entity may be subject to a number of different externally imposed capital requirements (for example, a conglomerate may include entities that undertake insurance activities and banking activities) and may manage capital in a number of ways. Where an aggregate disclosure of these capital requirements and how capital is managed would not provide useful information or would distort a financial statement user's understanding of the entity's capital resources, the entity should disclose separate information for each capital requirement to which the entity is subject.

33 FINANCIAL RISK MANAGEMENT[239] AND FAIR VALUES OF FINANCIAL INSTRUMENTS[240]

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the group's business. The group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

HKFRS 7.1

[239] HKFRS 7, *Financial instruments: Disclosures*, sets out disclosure requirements relating to an entity's exposure to risks arising from financial instruments and is applicable to all entities that hold financial instruments.

The objective of HKFRS 7 is to require entities to provide information that enables users to evaluate:

- the significance of financial instruments for an entity's financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.

HKFRS 7.7, 31, & B3

In order to meet this objective HKFRS 7 sets out both qualitative and quantitative minimum disclosure requirements. However, HKFRS 7 does not prescribe either the format of the information required to be disclosed or its location within the financial statements and/or other reports. Instead, the standard states that it is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation (see paragraph B3 of HKFRS 7).

An entity should therefore decide, in light of its circumstances, how much detail it needs to provide to satisfy the requirements of the standard, including how much emphasis it places on different aspects of the requirements and how it aggregates information to display the overall picture without combining information with different characteristics. It should also be noted that HKFRS 7 introduces the concept of looking first to information provided internally to key management personnel (as defined in HKAS 24, *Related party disclosures*), for example the entity's board of directors or chief executive officer, as a source of quantitative data on the entity's exposure to financial risks. Basing disclosures on information used by key management personnel provides information about how management views and manages its risk, as well as about the risks themselves, which the IASB Board considered was useful information for users of financial statements (as discussed in paragraph BC47 of HKFRS 7). The IASB Board also considered this approach has practical advantages for preparers because it allows them to use the data they use in managing risk. The requirements of HKFRS 7 in this regard are discussed further in footnote 242.

In practice, the requirements of HKFRS 7 will be met by a combination of narrative descriptions and quantitative data, as appropriate to the nature of the instruments and their relative significance to the entity. This information may be either included in the various notes that refer to the specific financial instruments and/or included in a separate note. A mixed approach is illustrated here, as can be seen from the cross references to HKFRS 7 throughout the notes to the illustrative financial statements and the specific note 33 which provides the additional risk and fair value disclosures required by the standard.

HKFRS 7.32A

Paragraph 32A of HKFRS 7 emphasises the interaction between qualitative and quantitative disclosures by stating that providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments.

HKFRS 7.B6

It should also be noted that paragraph B6 of HKFRS 7 explicitly provides for the financial risk disclosures, as set out in paragraphs 31-42 of HKFRS 7, to be given either in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is not part of the financial statements, such as a management commentary, provided it is available to users of the financial statements on the same terms as the financial statements and at the same time. Including all disclosures required by HKFRS within the financial statements themselves helps users in differentiating between disclosures that are required by HKFRS and other information. However, if such information is presented outside the financial statements, then in our view it should be marked clearly as being part of the disclosures required by HKFRS and cross-referenced to the financial statements. An entity could identify such information as, for example, "information that is an integral part of the audited financial statements" or "disclosures that are required by HKFRS".

HKFRS 13.91

[240] As mentioned in footnote 147, the disclosure objectives of HKFRS 13 are:

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

As indicated in these disclosure objectives, HKFRS 13 disclosures aim at helping users understand how the entity determines the fair values of assets and liabilities (both financial and non-financial) recognised in the statement of financial position; and how its financial performance is impacted by the measurement uncertainty and subjectivity involved in determining the fair values as a result of using significant unobservable inputs in the valuations. On the other hand, HKFRS 7's disclosure objectives, as introduced in footnote 239 above, focus on helping users understand the entity's risk exposure associated with financial instruments and how the entity manages the risk.

The group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are described below.[241]

HKFRS 7.31-35

(a) Credit risk[241, 242, 243]

HKFRS 7.31 & 33
A16(4)(2)(a)

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group's credit risk is primarily attributable to trade receivables and contract assets. The group's exposure to credit risk arising from cash and cash equivalents, bills receivable and derivative financial assets is limited because the counterparties are banks and financial institutions with a minimum credit rating of [●] assigned by [rating agency X], for which the group considers to have low credit risk.

HKFRS 7.35K(a) & 36(a)

Except for the financial guarantees given by the group as set out in note 35(c), the group does not provide any other guarantees which would expose the group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 35(c).[244]

HKFRS 7.32-33

241 HKFRS 7 requires disclosure of qualitative information concerning risks arising from financial instruments and how the entity manages the risks. In particular, HKFRS 7 requires the following to be disclosed for each type of risk arising from financial instruments:
- the exposures to risk and how they arise;
- the entity's objectives, policies and processes for managing the risk and the methods used to manage the risk; and
- any changes in either of the above from the previous period.

Risks that typically arise from financial instruments are identified in paragraph 32 of HKFRS 7 as including, but not being limited to, credit risk, liquidity risk and market risk (which in turn comprises currency risk, interest rate risk and other price risk). Paragraphs IG15-16 of HKFRS 7 list examples of information that an entity might consider disclosing in this regard.

HKFRS 7.34-42 &
B6-B28

242 Paragraph 34 of HKFRS 7 requires disclosure of summary quantitative data about an entity's exposure to each type of risk arising from financial instruments at the end of the reporting period. This disclosure should be given based on the information provided internally to key management personnel of the entity, for example, the board of directors or chief executive officer, and is therefore expected to vary from one entity to another.

It should, however, be noted that certain minimum disclosures (as set out in paragraphs 35A-42 of HKFRS 7) are also required to the extent that they are not covered by the disclosures made under the above management approach, and if the risk concerned is material. These include hypothetical sensitivity analyses, as required by paragraph 40, as discussed further in footnote 253. In addition, concentrations of risk that arise from financial instruments having similar characteristics (for example, counterparty, geographical area, currency or market) are also required to be disclosed if such concentrations are not apparent from the above information.

If the above quantitative disclosures of exposures at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, the entity should provide additional information that is representative. For example, paragraph IG20 of HKFRS 7 indicates that if the entity typically has a large exposure to a particular currency, but at year-end unwinds the position, the entity might disclose the highest, lowest and average amount of risk to which it was exposed during the year.

HKFRS 7.35B-35D

243 From 2018 onwards, HKFRS 7 as amended by HKFRS 9 requires more granular credit risk disclosures. Specifically, HKFRS 7 now requires an entity to disclose:
- information about the entity's credit risk management practices and how they relate to the recognition and measurement of ECL (paragraphs 35F and 35G);
- quantitative and qualitative information that allows users of financial statements to evaluate the amount in the financial statements arising from ECL (paragraphs 35H to 35L); and
- information about the entity's exposure to credit risk, including significant concentrations of credit risk (paragraphs 35M and 35N).

Entities do not need to duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements where the information is disclosed, and those statements are available to the financial statement users on the same terms as the financial statements and at the same time.

Entities should consider the level of detail that is necessary to meet the disclosure objectives.

HKFRS 7.36(a)

244 Paragraph 36(a) of HKFRS 7 requires disclosure of the amount, by class of financial instrument, that best represents the entity's maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements. This disclosure is only required for financial instruments whose carrying amount does not best represent the maximum exposure to credit risk, for example financial guarantees and loan commitments.

Trade receivables and contract assets

HKFRS 7.33(a),(b), 35B(a) & 35B(c)

The group has established a credit risk management policy under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within [●] days from the date of billing. Debtors with balances that are more than [●] months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the group does not obtain collateral from customers.

The group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, [●]% (2019: [●]%) and [●]% (2019: [●]%) of the total trade receivables and contract assets was due from the group's largest customer and the five largest customers respectively within the electronics business segment.

HKFRS 7.35B(a) & 35F(c)

The group measures loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the group's different customer bases[245].

[*Consider whether it is necessary to update these disclosures to reflect any changes in credit risk management policy in response to the COVID-19 pandemic, and give further details in accordance with HKFRS 7.31-35, including the key assumptions and the estimation techniques used in measuring ECL, changes in the models and assumptions and/or any re-segmentation of trade receivables and contract assets*.]

HKFRS 9.B5.5.5

[245] If the historical credit loss experience shows significantly different loss patterns for different customer segments, the trade receivables and contract assets should be further segmented based on shared credit risk characteristics. These segments could be based on geographic region, product type, customer rating, type of customers (e.g. retail or wholesale) etc.

HKFRS 7.35G(a)(i), 35M(iii), 35N & B8I

The following table provides information about the group's exposure to credit risk and ECLs for trade receivables and contract assets: [246]

	2020		
	Expected loss rate	**Gross carrying amount**	**Loss allowance**
	%	**$'000**	**$'000**
Current (not past due)	**0.5%**	**52,442**	**(275)**
1-30 days past due	**2.8%**	**14,271**	**(400)**
31-60 days past due	**5.0%**	**10,951**	**(548)**
61-90 days past due	**27.6%**	**2,874**	**(793)**
More than 90 days past due	**56.8%**	**3,211**	**(1,824)**
		83,749	**(3,840)**

	2019		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	$'000	$'000
Current (not past due)	0.4%	49,950	(201)
1-30 days past due	3.0%	16,633	(499)
31-60 days past due	5.1%	10,075	(518)
61-90 days past due	30.7%	2,756	(845)
More than 90 days past due	57.5%	2,999	(1,725)
		82,413	(3,788)

Expected loss rates are based on actual loss experience over the past [●] months. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

[*Consider whether it is necessary to update these disclosures to more specifically discuss how the COVID-19 pandemic has impacted on the group's estimates of ECL.*]

HKFRS 7.35M, 35N & B8I

246 Paragraph 35M of HKFRS 7 requires the disclosure about an entity's credit risk exposure to be by credit risk rating grades. Credit risk rating grades are defined in the Appendix A to HKFRS 7 as the rating of credit risk based on the risk of a default occurring on the financial instrument. Credit risk rating grades used for disclosure should be consistent with those the entity reports to key management personnel for credit risk management purposes. For example, an entity may manage and report to key management personnel about information on its listed debt securities by external credit ratings provided by rating agencies. In that case, the entity would disclose its credit risk exposure to those listed debt securities based on the external credit ratings. Alternatively, an entity may have developed an internal credit rating system whereby each of its financial asset is assigned a rating representing the risk of default, in which case the disclosure of credit risk exposure would be based on the internal credit ratings developed. However, if delinquency and past due information is the only borrower-specific information available without undue cost or effort and this information is used to assess whether credit risk has significantly increased since initial recognition, then in such cases, an entity should provide the analysis by "past due" status rather than by credit risk rating grades.

Paragraph 35N of HKFRS 7 provides an exception to the general disclosure requirements in paragraph 35M for trade receivables, contract assets and lease receivables to which the simplified approach applies (i.e. the loss allowance is always measured at an amount equal to lifetime ELCs). Paragraph 35N allows an entity to disclose its credit risk exposure to those assets based on a provision matrix. We have illustrated here an example of disclosure based on a provision matrix. Other presentations may be appropriate.

HKFRS 7.35B(b) & 35H & 42P

Movement in the loss allowance account in respect of trade receivables and contract assets during the year is as follows:

		2020	2019
		$'000	$'000
	Balance at 1 January	**3,788**	3,718
	Amounts written off during the year	**(2,248)**	(1,650)
HKFRS 15.113(b)	Impairment losses recognised during the year	**2,300**	1,720
	Balance at 31 December	**3,840**	3,788

HKFRS 7.35I & B8D

The following significant changes in the gross carrying amounts of trade receivables and contract assets contributed to the increase in the loss allowance:

- origination of new trade receivables net of those settled resulted in an increase in loss allowance of $[●] (2019: $[●]);
- increase in days past due over 30 days resulted in an increase in loss allowance of $[●] (2019: $[●]); and
- a write-off of trade receivables with a gross carrying amount of $[●] (2019: $[●]) resulted in a decrease in loss allowance of $[●] (2019: $[●]).

Credit risk arising from loans to associates

HKFRS 7.35K

The loans to associates are fully secured by properties held by the associates. The maximum exposure to credit risk in respect of the loans at the end of the reporting period, without taking into account the collateral, and the key terms of the loans are disclosed in note 17. The group considers that the credit risk arising from the loans is significantly mitigated by the properties held as collateral, with reference to the estimated market value of the properties at 31 December 2020 and 31 December 2019.

(b) Liquidity risk[241, 242, 247]

HKFRS 7.31-35

HKFRS 7.39(c)

Individual operating entities within the group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.[249]

[*Consider disclosing any changes in liquidity risk management policy made as a result of the impact of the COVID-19 pandemic on the entity's finances, and give further details in accordance with HKFRS 7.31-35 & 39.*]

HKFRS 7.39 & B10A-11F

[247] In respect of minimum quantitative disclosures concerning liquidity risk, paragraph 39 of HKFRS 7 requires disclosure of a maturity analysis for financial liabilities and a description of how an entity manages the liquidity risk inherent in the analysis. This maturity analysis should show the remaining contractual maturities for non-derivative liabilities and for those derivative liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows. For other derivatives, it appears that in accordance with paragraph 34(a), the maturity analysis should be based on the information provided internally to key management personnel, even if this is based on expected cash flows and their expected timing.

Similar to other disclosure requirements under HKFRS 7, the standard does not specify the format of the information required, for example, the number of time bands to be used in the maturity analysis (although suggested time bands are set out in paragraph B11 of HKFRS 7). Entities should use their judgement to determine what is appropriate in view of their circumstances and with due regard to the information provided internally to key management personnel.

Paragraphs B11A-11F of HKFRS 7 contain further specific requirements concerning how any maturity analysis of contractual cash flows should be presented. In particular:

- It is clear from paragraph B11D that any contractual cash flows to be disclosed in the analysis should be the gross (i.e. undiscounted) cash flows. These contractual amounts will be different from the amounts recognised in the statement of financial position if the amounts are not due within the short term or payable on demand, as the contractual cash flows will include interest charges, if any, which are payable over the period until the principal is contractually repayable as well as the gross amounts of any principal repayments. Paragraph B11C(a) further states that when a counterparty can ask for payment at different dates, the liability should be included on the basis of the earliest date on which the entity can contractually be required to pay. This means that the disclosure shows a "worst case scenario" for the possible timing of these gross outflows.
- It is clear from paragraph B11A that embedded derivatives (such as conversion options) should not be separated from hybrid financial instruments when disclosing contractual maturities. Instead the contractual cash flows for the instrument as a whole should be disclosed.
- Where a variable amount is contractually payable, paragraph B11D requires that the amount disclosed in the maturity analysis should be determined by reference to the conditions existing at the end of the reporting period. For example, when interest charges are contractually determined by reference to a floating rate of interest, the amount disclosed in the maturity analysis would be based on the level of the index at the end of the reporting period.
- Where the entity has issued a financial guarantee, paragraph B11C(c) states that the maximum amount that could be payable under the guarantee should be allocated to the earliest period in which the guarantee could be called. This disclosure is not dependent on whether it is probable that the entity will be required to make payments under the contract.

However, HKFRS 7 does not include any specific guidance which deals with the question of how to analyse gross cash flows arising under perpetual debt. In this regard, whilst the principal amount of the debt does not give rise to liquidity risk for the entity (as the timing of repayment is neither contractually fixed nor under the control of the holder), any contractual periodic payments of interest would generally give rise to liquidity risk and should be included in the maturity analysis in the discrete time bands of, for example, "within one year" and "more than one year but less than two years" and so on. However, as there is, by definition, no fixed end date to the stream of periodic interest payments on perpetual debt, the gross cash flows to be included in the final non-discrete time band (being here defined as "more than five years") generally cannot be properly determined. To deal with this issue where the effect is material, in our view, the entity should include a footnote disclosure which highlights the existence of these gross payments to perpetuity and explains the extent to which they have been dealt with in the analysis.

HKFRS 7.39(a) & (b)

The following tables show the remaining contractual maturities at the end of the reporting period of the group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the group can be required to pay:[247, 248]

HKFRS 16.58

	2020 Contractual undiscounted cash outflow						2019 Contractual undiscounted cash outflow					
	Within 1 year or on demand $'000	**More than 1 year but less than 2 years $'000**	**More than 2 years but less than 5 years $'000**	**More than 5 years $'000**	**Total $'000**	**Carrying amount at 31 Dec $'000**	Within 1 year or on demand $'000	More than 1 year but less than 2 years $'000	More than 2 years but less than 5 years $'000	More than 5 years $'000	Total $'000	Carrying amount at 31 Dec $'000
Unsecured debenture	**400**	**400**	**1,200**	**5,400**	**7,400**	**5,000**	400	400	1,200	5,800	7,800	5,000
Convertible notes	**550**	**10,550**	**-**	**-**	**11,100**	**9,542**	550	550	10,550	-	11,650	9,356
Redeemable preference shares and dividends payable	**400**	**400**	**4,800**	**-**	**5,600**	**4,012**	400	400	5,200	-	6,000	4,012
Bank loans	**34,878**	**5,964**	**55,087**	**7,365**	**103,294**	**82,635**	43,483	3,715	56,718	9,967	113,883	87,602
Lease liabilities	**22,010**	**23,105**	**29,360**	**6,205**	**80,680**	**70,292**	15,766	16,880	42,674	6,414	81,734	68,473
Loans from fellow subsidiaries	**251**	**242**	**3,145**	**-**	**3,638**	**2,665**	106	136	150	1,161	1,553	906
Loans from non-controlling shareholders of a subsidiary	**338**	**360**	**3,480**	**-**	**4,178**	**3,000**	338	360	3,880	-	4,578	3,000
Bills payable, creditors and accrued charges	**151,413**	**-**	**-**	**-**	**151,413**	**151,413**	134,507	-	-	-	134,507	134,507
Amounts due to ultimate holding company	**4,500**	**-**	**-**	**-**	**4,500**	**4,500**	4,500	-	-	-	4,500	4,500
Amounts due to fellow subsidiaries	**4,700**	**-**	**-**	**-**	**4,700**	**4,700**	4,200	-	-	-	4,200	4,200
Bank overdrafts	**1,266**	**-**	**-**	**-**	**1,266**	**1,266**	2,789	-	-	-	2,789	2,789
Interest rate swaps (net settled)	**23**	**29**	**116**	**-**	**168**	**128**	9	15	51	-	75	52
	220,729	**41,050**	**97,188**	**18,970**	**377,937**	**339,153**	207,048	22,456	120,423	23,342	373,269	324,397
Financial guarantees issued:												
Maximum amount guaranteed (note 35(c))	**200**	**-**	**-**	**-**	**200**	**6**	500	-	-	-	500	8

HKFRS 7.B10A

248 Where quantitative data about exposure to liquidity risk is based on information provided internally to key management personnel (i.e. in accordance with paragraph 34(a) of HKFRS 7) rather than contractual maturities, paragraph B10A requires an entity to explain how the liquidity risk data are determined. In addition, if the outflows of cash (or another financial asset) included in this liquidity risk data could either:

- occur significantly earlier than indicated in the data (for example if repayable on demand); or
- be for significantly different amounts from those indicated in the data (for example, if a counter-party could demand gross settlement for a derivative that is included in the data on a net settlement basis)

then the entity should state that fact and provide quantitative information that enables users of its financial statements to evaluate the extent of this risk (unless the information has already been provided in the contractual maturity analysis required by paragraph 39 of HKFRS 7).

HKFRS 7.B11E-11F

249 Paragraph 39(c) of HKFRS 7 requires an entity to describe how it manages the liquidity risk inherent in the items disclosed in the quantitative liquidity risk disclosures. In this regard, paragraph B11E requires an entity to disclose a maturity analysis of the financial assets it holds for managing the liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. Paragraph B11F lists out other factors that an entity might consider including in this disclosure.

	2020 Within 1 year or on demand $'000	**2020** More than 1 year but less than 2 years $'000	**2020** More than 2 years but less than 5 years $'000	**2020** More than 5 years $'000	**2020** Total $'000	2019 Within 1 year or on demand $'000	2019 More than 1 year but less than 2 years $'000	2019 More than 2 years but less than 5 years $'000	2019 More than 5 years $'000	2019 Total $'000
	Contractual undiscounted cash inflow/(outflow)					Contractual undiscounted cash inflow/(outflow)				
Derivatives settled gross:										
Forward foreign exchange contracts held as cash flow hedging instruments (note 33(d)(i)):										
- outflow	**(158,040)**	**-**	**-**	**-**	**(158,040)**	(142,260)	-	-	-	(142,260)
- inflow	**157,176**	**-**	**-**	**-**	**157,176**	143,315	-	-	-	143,315
Other forward foreign exchange contracts (note 33(d)(ii)):										
- outflow	**(15,384)**	**-**	**-**	**-**	**(15,384)**	(3,618)	-	-	-	(3,618)
- inflow	**15,129**	**-**	**-**	**-**	**15,129**	3,589	-	-	-	3,589

HKFRS 7.39(c) As shown in the above analysis, bank loans amounting to $34,878,000 were due to be repaid during 2021. The short-term liquidity risk inherent in this contractual maturity date has been addressed after the end of the reporting period by re-financing $10,000,000 of the loan, as disclosed in note 38(c).

HKFRS 7.31-35 & 40-42

(c) Interest rate risk[241, 242]

HKFRS 7.22A

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. The group has a policy of ensuring that between [●]% and [●]% of its borrowings are effectively on a fixed rate basis, either through the contractual terms of the interest-bearing financial liabilities or through the use of interest rate swaps. The group's interest rate risk profile as monitored by management is set out in (ii) below.

(i) Hedges of interest rate risk[250]

HKFRS7.22B(a) & 24A

Interest rate swaps, denominated in Hong Kong dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure consistent with the group's policy.

The following table provides information on the interest rate swaps which have been designated as cash flow hedges of the interest rate risk inherent in the group's variable rate bank borrowings at the end of the reporting period:

	2020	2019
	$'000	$'000
Notional amount	**40,000**	40,000
Carrying amount (note)		
- Asset	**1,664**	1,489
- Liability	**(128)**	(52)

Note:
Interest rate swap assets and liabilities are included in the "Trade and other receivables" (note 21) and "Trade and other payables" (note 24) line items in the consolidated statement of financial position respectively.

HKFRS 7.23A & 23B

The swaps mature over the next [●] years matching the maturity of the related loans (see note 33(b)) and have fixed swap rates ranging from [●]% to [●]% (2019: [●]% to [●]%).

HKFRS 7.22B & 23D

The group seeks to hedge the benchmark interest rate component only and applies a hedge ratio of 1:1. The existence of an economic relationship between the interest rate swaps and the variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, interest repricing dates, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal

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HKFRS 7.21A, 21B & 21D

250 HKFRS 7 includes additional information to be disclosed when hedge accounting is applied. The disclosure requirements apply irrespective of whether HKAS 39 or HKFRS 9 hedge accounting is used (at the initial application of HKFRS 9, an entity had a choice to continue to apply the hedge accounting requirements under HKAS 39).

The objective of the hedge accounting disclosures is that entities shall disclose information about:
- the risk management strategy and how it is applied to manage risks (paragraphs 22A to 22C);
- how risk management activities may affect the amount, timing and uncertainty of future cash flows (paragraphs 23A to 23F); and
- the effect of hedge accounting has had on the statement of financial position, the statement of comprehensive income and the statement of changes in equity (paragraphs 24A to 24G).

Entities do not need to duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements where the information is disclosed, and those statements are available to the financial statement users on the same terms as the financial statements and at the same time.

In applying this objective, entities need to consider the necessary level of detail, the balance between different disclosure requirements, the appropriate level of disaggregation and whether additional explanations are necessary to meet the objective.

amounts of the loans. The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the group's own credit risk on the fair value of the swaps which is not reflected in the fair value of the hedged cash flows attributable to the change in interest rates.

HKFRS 7.24B(b)(i), (ii) 24C(b), 24E & 24F

The following table provides a reconciliation of the hedging reserve in respect of interest rate risk and shows the effectiveness of the hedging relationships:

	2020 **$'000**	2019 $'000
Balance at 1 January	**951**	858
Effective portion of the cash flow hedge recognised in other comprehensive income	**196**	159
Amounts reclassified to profit or loss (note (i))	**(98)**	(80)
Related tax	**(17)**	14
Balance at 31 December (note (ii))	**1,032**	951
Change in fair value of the interest rate swaps during the year	**197**	160
Hedge ineffectiveness recognised in profit or loss (note (iii))	**(1)**	(1)
Effective portion of the cash flow hedge recognised in other comprehensive income	**196**	159

Notes:

(i) Amounts reclassified to profit or loss are recognised in the "Finance costs" line item in the consolidated statement of profit or loss (see note 5(a)).

(ii) The entire balance in the hedging reserve relates to continuing hedges[251].

(iii) Hedge ineffectiveness is recognised in the "Other income" line item in the consolidated statement of profit or loss (see note 4).

HKFRS 7.24B(b)(iii) [251] Paragraph 6.5.12 of HKFRS 9 provides that when an entity discontinues hedge accounting for a cash flow hedge, but the hedged future cash flows are still expected to occur, the amount that has been accumulated in the hedging reserve remains in the reserve until the future cash flows occur. Paragraph 24B(b)(iii) of HKFRS 7 requires an entity to disclose balances remaining in the cash flow hedge reserve from any hedging relationships for which hedge accounting is no longer applied.

(ii) Interest rate risk profile[252]

HKFRS 7.34 & 35

The following table, as reported to the management of the group, details the interest rate risk profile of the group's borrowings at the end of the reporting period:

	Notional amount	
	2020	2019
	$'000	$'000
Fixed rate borrowings:		
Lease liabilities	**70,292**	68,473
Bank loans	**40,986**	46,432
Unsecured debentures	**5,000**	5,000
	116,278	119,905
Interest rate swap	**40,000**	40,000
	156,278	159,905
Variable rate borrowings:		
Bank overdrafts	**1,266**	2,789
Bank loans	**43,054**	43,483
Loans from fellow subsidiaries	**2,665**	906
Loans from non-controlling shareholders of a subsidiary	**3,000**	3,000
	49,985	50,178
Interest rate swap	**(40,000)**	(40,000)
Net exposure	**9,985**	10,178

HKFRS 7.40

(iii) Sensitivity analysis[253]

HKFRS 7.40(a)

At 31 December 2020, it is estimated that a general increase/decrease of [●] basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after tax and retained profits by approximately $[●] (2019: $[●]). Other components of consolidated equity would have increased/decreased by approximately $[●] (2019: $[●]) in response to the general increase/decrease in interest rates.

HKFRS 7.40(b)

The sensitivity analysis above indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group which expose the group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the group at the end of the reporting period, the impact on the group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in
HKFRS 7.40(c) interest rates. The analysis is performed on the same basis as 2019.

HKFRS 7.34 & 35

[252] As explained above in footnote 242, HKFRS 7 takes primarily a management approach to the disclosure of quantitative risk information. Therefore, the extent and format of disclosure may vary from one entity to the next, depending on what information is used internally by key management personnel to monitor interest rate risk.

HKFRS 7.31-35 & 40-42

HKFRS 7.31 & 33

(d) Currency risk[241, 242]

The group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Japanese Yen and Australian dollars. The group manages this risk as follows:

(i) Hedges of foreign currency risk in forecast transactions[250]

HKFRS 7.22A

At any point in time the group hedges up to [●]% of its estimated foreign currency exposure in respect of highly probable forecast sales and purchases, excluding those transactions denominated in United States dollars which are expected to be entered into by operations with a functional currency of Hong Kong dollars. Such transactions are currently not hedged under the group's foreign currency risk management strategy as the group currently considers the risk of movements in exchange rates between the Hong Kong dollar and the United States dollar to be insignificant.

HKFRS 7.40-42 & B17-28

253 Paragraph 40 of HKFRS 7 requires a forward-looking sensitivity analysis to be disclosed for each type of market risk (which includes interest rate risk, currency risk and other price risk) to which an entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable (for example, prevailing market interest rates, currency rates, equity prices or commodity prices) that were "reasonably possible" at that date. In addition, the entity is required to disclose the methods and assumptions used in preparing the sensitivity analysis and any changes from the previous period in these methods and assumptions used, and the reasons for such changes.

HKFRS 7.41

This requirement applies unless an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables and uses it to manage financial risk. If this is the case then the entity may choose instead to disclose that analysis instead of the sensitivity analysis described in paragraph 40 of HKFRS 7.

HKFRS 7 does not prescribe a format in which a sensitivity analysis should be presented, although paragraph B17 of HKFRS 7 notes that exposures to risks from significantly different economic environments should not be combined. Further guidance in this respect can be found in paragraph B17 of HKFRS 7 and paragraph IG36 of HKFRS 7 contains an illustrative example of a narrative approach to the requirement. Entities should consider their individual circumstances in determining how they should prepare and present the information and care should be taken to ensure that clear descriptions of the methods and assumptions used to arrive at the amounts disclosed are provided.

In addition, the following points should be noted when preparing the sensitivity analysis:

- Paragraph B19(b) of HKFRS 7 limits the assessment of what a future "reasonably possible change" in the relevant risk variable might be, to be an assessment of what changes are thought to be reasonably possible in the period until the entity next presents these disclosures. Paragraph B19(b) of HKFRS 7 notes that this is usually the next annual reporting period.
- According to paragraph B19(a) of HKFRS 7, a "reasonably possible change" should not include "worst case" scenarios or "stress tests". Instead, the economic environments in which the entity operates should be considered to identify an appropriate measure. In this respect it should be noted that paragraph B18 of HKFRS 7 indicates that the disclosure would consider changes at the limits of a reasonably possible range (i.e. rather than an arbitrary amount, for example, "1 percentage point change" in all variables). This particularly needs to be remembered where the impact of a greater or smaller change than the change used in the sensitivity analysis would not be directly proportional, for example where an entity has entered into interest rate caps or collars.
- When computing how profit or loss and equity would have been affected by changes in the relevant risk variable, it should be assumed that the "reasonably possible change" in the risk variable had occurred at the end of the reporting period and had been applied to the risk exposures in existence at that date. Further guidance on this is given in paragraphs B18 and IG34-36 of HKFRS 7. In particular, entities are not required to determine what profit or loss for the past period would have been if relevant risk variables had been different. Instead, sensitivity analyses should be prepared based on financial instruments that are recognised at the end of the reporting period even where those exposures did not exist for the entire period, or where the exposures are expected to change significantly during the next period.
- Some financial instruments, although subject to market risk, are not re-measured in the financial statements in response to changes in market risk variables and therefore these changes in market risk variables would not affect profit or loss or equity in such cases. An example is a fixed rate debt instrument denominated in an entity's functional currency and measured at amortised cost. Such instruments would therefore be excluded from the sensitivity analysis calculation.

HKFRS 7.22B

The group uses forward exchange contracts to manage its currency risk until the settlement date of foreign currency receivables or payables. The group designates those forward exchange contracts as hedging instruments in cash flow hedges and does not separate the forward and spot element of a forward exchange contract but instead designates the forward exchange contract in its entirety[254] in a hedging relationship. Correspondingly, the hedged item is measured based on the forward exchange rate.

The group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the forward exchange contracts and the highly probable forecast transactions based on their currency amounts and the timing of their respective cash flows. The main sources of ineffectiveness in these hedging relationships are:

(i) the effect of the counterparty's and the group's own credit risk on the fair value of the forward exchange contracts which is not reflected in the change in the value of the hedged cash flows attributable to the forward rate; and

(ii) changes in the timing of the hedged transactions.

The following table details the forward exchange contracts that have been designated as cash flow hedges of the group's highly probable forecast transactions at the end of the reporting period:

	2020		2019	
	Foreign currency '000	**Hong Kong dollar $'000**	Foreign currency '000	Hong Kong dollar $'000
Notional amount				
- Buy [foreign currency X]	**[●]**	**[●]**	[●]	[●]

	2020	2019
	$'000	$'000
Carrying amount (note)		
- Asset	**804**	1,465
- Liability	**(40)**	(20)

Note:
Forward exchange contract assets and liabilities are included in the "Trade and other receivables" (note 21) and "Trade and other payables" (note 24) line items in the consolidated statement of financial position respectively.

HKFRS 7.23A & 23B

The forward exchange contracts have a maturity of less than one year from the reporting date and have an average exchange rate of [●] between [foreign currency X] and Hong Kong dollar (2019: [●]).

HKFRS 7.42

If an entity considers that the sensitivity analyses required to be disclosed by HKFRS 7 are unrepresentative of a risk inherent in a financial instrument (for example because the year-end exposure does not reflect the exposure during the year), the entity should disclose that fact and the reason it believes the analyses are unrepresentative. Further guidance in this respect can be found in paragraphs IG37-40 of HKFRS 7.

HKFRS 9.6.2.4(b) 254 Entities may also choose to separate the spot and forward element of a forward contract and designate only the change in the value of the spot element as the hedging instrument.

HKFRS 7.24B(b)(i), (ii) 24C(b), 24E & 24F

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

	2020 **$'000**	2019 $'000
Balance at 1 January	**1,427**	1,965
Effective portion of the cash flow hedge recognised in other comprehensive income	**(145)**	(119)
Amounts reclassified to profit or loss (note (i))	**(300)**	(280)
Amounts transferred to the initial carrying amount of the hedged items (note (ii))	**(236)**	(220)
Related tax	**119**	81
Balance at 31 December (note (iii))	**865**	1,427

Change in fair value of the forward exchange contracts during the year	**(145)**	(119)
Hedge ineffectiveness recognised in profit or loss	**-**	-
Effective portion of the cash flow hedge recognised in other comprehensive income	**(145)**	(119)

Notes:

(i) Amounts reclassified to profit or loss are recognised in the "Cost of sales" line item in the consolidated statement of profit or loss (see note 5(c)).

(ii) Amounts transferred from the hedging reserve are recognised in the "Inventory" line item in the consolidated statement of financial position.

(iii) The entire balance in the hedging reserve relates to continuing hedges[251].

(ii) Recognised assets and liabilities

HKFRS 7.31 & 33

Changes in the fair value of forward exchange contracts that economically hedge monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss (see note 5(c)). The net fair value of forward exchange contracts used by the group as economic hedges of monetary assets and liabilities denominated in foreign currencies at 31 December 2020 was $253,000 (2019: $659,000), recognised as derivative financial instruments.

In respect of other trade receivables and payables denominated in foreign currencies, the group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

Except for the borrowings designated to hedge a net investment in a subsidiary (as described below), all of the group's borrowings are denominated in the functional currency of the entity taking out the loan or, in the case of group entities whose functional currency is Hong Kong dollars, in either Hong Kong dollars or United States dollars. Given this, management does not expect that there will be any significant currency risk associated with the group's borrowings.

(iii) Hedge of net investment in a foreign subsidiary[250]

HKFRS 7.22A & 22B

A foreign currency exposure arises from the group's net investment in its Singaporean subsidiary (see note 14) that has Singapore dollar as its functional currency. The risk arises from the fluctuation in spot exchange rates between the Singapore dollar and the Hong Kong dollar, which causes the carrying amount of the net investment to vary. The company's Singapore dollar denominated secured bank loan is designated as a hedging instrument for the changes in the value of the net investment that is attributable to changes in the HKD/SGD spot rate. It is the group's policy to hedge the net assets of the

Singaporean subsidiary up to an amount of SGD [●]. This policy is reviewed every [●] years in light of the subsidiary's performance and dividend policy.

The carrying amount of the loan at 31 December 2020 was $13,950,000 (2019: $14,400,000). A foreign exchange gain of $494,000 (2019: loss of $219,000) was recognised in the group's other comprehensive income for the period on translation of the loan to Hong Kong dollars.

(iv) Exposure to currency risk[255]

HKFRS 7.34 & 35

The following table details the group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the group's presentation currency and the exposure arising from the secured bank loan that is designated as a hedge of the group's net investment in its subsidiary in Singapore (see (iii) above) are excluded.

	Exposure to foreign currencies (expressed in Hong Kong dollars)							
	2020				2019			
	United States Dollars $'000	**Euros $'000**	**Japanese Yen $'000**	**Australian Dollars $'000**	United States Dollars $'000	Euros $'000	Japanese Yen $'000	Australian Dollars $'000
Trade and other receivables	**11,144**	**6,831**	**-**	**-**	8,648	3,762	-	-
Cash and cash equivalents	**-**	**-**	**15,628**	**13,440**	-	-	21,436	10,675
Trade and other payables	**-**	**-**	**(27,741)**	**(10,540)**	-	-	(20,362)	(15,250)
Gross exposure arising from recognised assets and liabilities	**11,144**	**6,831**	**(12,113)**	**2,900**	8,648	3,762	1,074	(4,575)
Notional amounts of forward exchange contracts used as economic hedges	**-**	**(5,500)**	**10,714**	**-**	-	(4,400)	-	-
Net exposure arising from recognised assets and liabilities	**11,144**	**1,331**	**(1,399)**	**2,900**	8,648	(638)	1,074	(4,575)

HKFRS 7.34 & 35

255 Other than the requirements for sensitivity analyses for market risk (see footnote 253), HKFRS 7 does not specify the minimum information required to be disclosed in respect of an entity's exposure to currency risk. The currency risk table illustrated above provides an example of summary quantitative data about the exposure to that risk at the end of the reporting period that an entity may provide internally to key management personnel.

HKFRS 7.B23

In this connection, it should be noted that for the purposes of HKFRS 7 currency risk arises on financial instruments that are denominated in a foreign currency (i.e. are denominated in a currency other than the functional currency in which they are measured). However, currency risk does not arise from non-monetary items or from financial instruments denominated in the functional currency of the entity to which they relate.

For example, for the purposes of disclosure under HKFRS 7, currency risk for the group arises if a subsidiary with a functional currency of Thai baht borrows in US dollars, even if the group presentation currency is also US dollars. Currency risk does not arise if that same subsidiary borrows instead in Thai baht. This applies whether or not the counter-party to the borrowing is a third party or another entity within the group.

It follows that the information concerning exposure to currency risk needs to be collated at the operating level when different entities within the group have different functional currencies. That is, each group entity would need to assess its own exposure to currencies other than its own functional currency, with the group's exposure to currency risk disclosed under HKFRS 7 being an aggregation of this information.

HKFRS 7.40 & B24

(v) Sensitivity analysis[253, 255]

HKFRS 7.40(a)

The following table indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2020			2019		
	Increase / (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits $'000**	**Effect on other components of equity $'000**	Increase / (decrease) in foreign exchange rates	Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000
United States Dollars	**[●]%**	**[●]**	**[●]**	[●]%	[●]	[●]
	([●])%	**[●]**	**[●]**	([●])%	[●]	[●]
Euros	**[●]%**	**[●]**	**[●]**	[●]%	[●]	[●]
	([●])%	**[●]**	**[●]**	([●])%	[●]	[●]
Japanese Yen	**[●]%**	**[●]**	**[●]**	[●]%	[●]	[●]
	([●])%	**[●]**	**[●]**	([●])%	[●]	[●]
Australian Dollars	**[●]%**	**[●]**	**[●]**	[●]%	[●]	[●]
	([●])%	**[●]**	**[●]**	([●])%	[●]	[●]

HKFRS 7.40(b)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the group entities' profit after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the group which expose the group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the group's presentation currency and the secured bank loan that is designated as a hedge

HKFRS 7.40(c)

of the group's net investment in its subsidiary in Singapore (see (iii) above). The analysis is performed on the same basis for 2019.

HKFRS 7.31-35
40-42 & B25-28

(e) Equity price risk[241, 242]

The group is exposed to equity price changes arising from equity investments held for trading and non-trading purposes (see notes 17 and 18). Other than unquoted securities held for strategic purposes, all of these investments are listed.

The group's listed investments are listed on the Stock Exchange of Hong Kong and are included in the Hang Seng Index. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the group's liquidity needs. Listed investments that are not held for trading purposes have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the group.

All of the group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the group, together with an assessment of their relevance to the group's long term strategic plans.

The group is also exposed to equity price risk arising from changes in the company's own share price to the extent that the company's own equity instruments underlie the fair values of derivatives or other financial liabilities of the group. As at the end of the reporting period the group is exposed to this risk through the conversion rights attached to Tranche B of the convertible notes issued by the company as disclosed in note 25(b)(ii).

HKFRS 7.40(a)

At 31 December 2020, it is estimated that an increase/(decrease) of [●]% (2019: [●]%) in the relevant stock market index (for listed investments), the price/earning ratios of comparable listed companies (for unquoted investments) or the company's own share price (for the conversion option of certain convertible bonds) as applicable, with all other variables held constant, would have increased/decreased the group's profit after tax (and retained profits) and other components of consolidated equity as follows:[253]

	2020			**2019**		
		Effect on profit after tax and retained profits $'000	**Effect on other components of equity $'000**		Effect on profit after tax and retained profits $'000	Effect on other components of equity $'000
Change in the relevant equity price risk variable:						
Increase	**[●]%**	**[●]**	**[●]**	[●]%	[●]	[●]
Decrease	**([●])%**	**[●]**	**[●]**	([●])%	[●]	[●]

HKFRS 7.40(b)-(c)

The sensitivity analysis indicates the instantaneous change in the group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the group which expose the group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2019.

HKFRS 13.91-92

(f) Fair value measurement[240]

HKFRS 13.93

(i) Financial assets and liabilities measured at fair value[257]

HKFRS 13.93(b)

Fair value hierarchy[150]

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

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

HKFRS 13.93(g)

The group has a team headed by the finance manager performing valuations for the financial instruments, including unlisted equity securities and conversion option embedded in convertible notes which are categorised into Level 3 of the fair value hierarchy. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates.[155]

[*Consider disclosing additional information to reflect the impact of the COVID-19 pandemic on valuations, and give further details in accordance with HKFRS 13.91-99, including change in valuation technique and transfers between levels of the fair value hierarchy.*]

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257 As mentioned in footnote 151, for recurring and non-recurring fair value measurements, entities are required to disclose, for each class of assets and liabilities, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Class is determined based on the nature, characteristics and risks of the asset or liability, and the level of the fair value hierarchy within which the fair value measurement is categorised. So far as financial instruments are concerned, "classes" would be determined at a lower level than the measurement categories (i.e. amortised cost, FVPL and FVOCI-recycling and non-recycling) in HKFRS 9 when the financial instruments within the same category have significantly different nature, characteristics or risks. For example, in these illustrative financial statements, the category "measured at fair value through profit or loss" is subdivided into trading and non-trading securities.

HKFRS 13.93(b)

	Fair value at 31 December 2020	**Fair value measurements as at 31 December 2020 categorised into**			Fair value at 31 December 2019	Fair value measurements as at 31 December 2019 categorised into		
		Level 1	**Level 2**	**Level 3**		Level 1	Level 2	Level 3
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Recurring fair value measurements[148]								
Assets:								
Trading securities	**58,331**	**58,331**	**-**	**-**	58,020	58,020	-	-
Non-trading listed securities	**7,823**	**7,823**	**-**	**-**	6,710	6,710	-	-
Units in bond funds	**16,466**	**16,466**	**-**	**-**	15,176	15,176	-	-
Unlisted equity securities	**5,040**	**-**	**-**	**5,040**	4,950	-	-	4,950
Derivative financial instruments:								
- Interest rate swaps	**1,664**	**-**	**1,664**	**-**	1,489	-	1,489	-
- Forward exchange contracts	**1,057**	**253**	**804**	**-**	2,124	659	1,465	-
Liabilities:								
Derivative financial instruments:								
- Interest rate swaps	**128**	**-**	**128**	**-**	52	-	52	-
- Forward exchange contracts	**40**	**-**	**40**	**-**	20	-	20	-
- Conversion option embedded in convertible notes	**172**	**-**	**-**	**172**	171	-	-	171

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

During the years ended 31 December 2019 and 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.[152]

HKFRS 13.93(d)

Valuation techniques and inputs used in Level 2 fair value measurements[156]

The fair value of forward exchange contracts in Level 2 is determined by discounting the difference between the contractual forward price and the current forward price. 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 transfer the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Information about Level 3 fair value measurements[156]

	Valuation techniques	**Significant unobservable inputs**	**Range[157]**	**Weighted average[157]**
Unlisted equity instruments	Market comparable companies	Discount for lack of marketability	[●]% to [●]% (2019: [●]% to [●]%)	[●]% (2019: [●]%)
Conversion option embedded in convertible notes	Binomial lattice model	Expected volatility	[●]% (2019: [●]%)	[●]% (2019: [●]%)

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 31 December 2020, 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 $[●] (2019: $[●]).

The fair value of conversion option embedded in the convertible notes is determined using the binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 31 December 2020, 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 $[●] (2019: $[●]).[258]

HKFRS 13.93(e)&(f)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:[159]

	2020	2019
	$'000	$'000
Unlisted equity securities:		
At 1 January	**4,950**	4,800
Payment for purchases	**-**	100
Net unrealised gains or losses recognised in other comprehensive income during the period	**90**	50
At 31 December	**5,040**	4,950
Conversion option embedded in convertible notes:		
At 1 January	**171**	169
Changes in fair value recognised in profit or loss during the period	**1**	2
At 31 December	**172**	171
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**1**	2

HKFRS 13.93(h)

[258] As mentioned in footnote 158, for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, entities should give a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. For financial instruments measured at fair value on a recurring basis and categorised within Level 3, a quantitative sensitivity analysis is required in addition to the narrative description.

Any gain or loss 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.

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.

(ii) Fair value of financial assets and liabilities carried at other than fair value[259]

HKFRS 7.25, HKFRS 13.97

The carrying amounts of the group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2019 and 2020 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

			Fair value measurements as at 31 December 2020 categorised into		
	Carrying amounts at 31 December 2020 $'000	**Fair value at 31 December 2020 $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Convertible notes	**(9,542)**	**(8,580)**	**-**	**-**	**(8,580)**
Redeemable preference shares	**(3,912)**	**(2,878)**	**-**	**-**	**(2,878)**

			Fair value measurements as at 31 December 2019 categorised into		
	Carrying amounts at 31 December 2019 $'000	Fair value at 31 December 2019 $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Convertible notes	(9,356)	(8,450)	-	-	(8,450)
Redeemable preference shares	(3,912)	(2,628)	-	-	(2,628)

Valuation techniques and inputs used in Level 3 fair value measurements

The fair values of the convertible notes and redeemable preference shares are estimated as being the present values of future cash flows, discounted at interest rates based on the government yield curve as at the end of the reporting period plus an adequate constant credit spread, adjusted for the group's own credit risk.

HKFRS 7.25-26, 29

[259] In these illustrative financial statements 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 a contract containing a discretionary participation feature (as described in HKFRS 4) if the fair value of that feature cannot be measured reliably; or
- for lease liabilities.

HKFRS 13.97

In addition, HKFRS 13.97 requires entities to disclose the following information for each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed:

- level of the fair value hierarchy within which the fair value measurements are categorised in their entirety;
- for fair value measurements categorised within Level 2 and Level 3:
  - a description of the valuation technique(s);
  - a description of the inputs used in the fair value measurement;
  - any change in valuation technique and the reason(s) for making the change; and
- for any non-financial asset whose highest and best use differs from its current use, this fact and the reason why it is being used in a manner that differs from its highest and best use.

For such assets and liabilities, entities need not provide the other disclosures required by HKFRS 13.

34 COMMITMENTS[260]

HKAS 16.74(c)

Capital commitments outstanding at 31 December 2020 not provided for in the financial statements were as follows:

		2020	2019
		$'000	$'000
CP	Contracted for	**1,539**	6,376
	Authorised but not contracted for	**23,000**	660
		24,539	7,036

HKFRS 16.59(b)(iv)

In addition, the group was committed at 31 December 2020 to enter into a new lease[261] of [●] years that is not yet commenced, the lease payments under which amounted to $[●] per annum (2019: a lease of [●] years with lease payments amounted to $[●] per annum).

35 CONTINGENT ASSETS AND LIABILITIES

(a) Contingent compensation receivable

HKAS 37.89

In September 2020, the company commenced litigation against a supplier for non-performance of a contract. According to legal advice it is probable that the company will win the case, in which case, the monetary compensation is expected to amount to approximately $3 million. No asset is recognised in respect of this claim.

(b) Contingent liability in respect of legal claim

HKAS 37.86

In June 2020, 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[73]. Under the subsidiary's employer's liability insurance policy, it is probable that in such circumstances the subsidiary could recover approximately $2 million from the insurer. The subsidiary continues to deny any liability in respect of the injury and, based on legal advice, the directors do not believe it probable that the court will find against them. No provision has therefore been made in respect of this claim.

HKFRS 7.31 & 36(a)

(c) Financial guarantees issued

As at the end of the reporting period, the group has issued a single guarantee in respect of a loan made by a finance company to a director of the company (see note 23(a)).

Deferred income in respect of the single guarantee issued is disclosed in note 24.[93]

HKFRS 16.55

260 Generally, a lessee is no longer required to disclose its lease commitments at the reporting date because the amounts are now recognised as lease liabilities in the statement of financial position and further details are disclosed in the note to the financial statements. However, if the portfolio of short-term leases to which the lessee is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed relates, a lessee is required to disclose the amount of its lease commitments for short-term leases that are accounted for applying the recognition exemptions in paragraph 6 of HKFRS 16.

261 In accordance with HKFRS 16.44-45, if a lessee signs a new agreement to extend an original lease for the same underlying asset, it should be accounted for as a lease modification at the effective date of the modification (i.e. at the date when the new agreement is signed) and therefore the future payments under that new lease should be included in the revised estimate of the lease liability included in the statement of financial position as at the reporting date. Consequently, such amounts should not be included in the amounts disclosed as commitments.

HKAS 24.18

36 MATERIAL RELATED PARTY TRANSACTIONS[262, 263]

(a) Key management personnel remuneration

HKAS 24.17

Remuneration for key management personnel of the group, including amounts paid to the company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:[264]

	2020	2019
	$'000	$'000
Short-term employee benefits	**8,624**	7,755
Post-employment benefits	**853**	781
Equity compensation benefits	**485**	585
	9,962	9,121

Total remuneration is included in "staff costs" (see note 5(b)).

HKAS 24.18 - 24

262 Paragraph 18 of HKAS 24 states that if there have been transactions between related parties, an entity shall disclose the nature of the related party relationships as well as information about the transactions and outstanding balances, including commitments, necessary for an understanding of the potential effect of the relationship on the financial statements. Paragraph 18 of HKAS 24 specifies certain information that the disclosures should include as a minimum. This list includes the amount of the transactions, the outstanding balances and commitments and their terms and conditions, and loss allowances. Pricing policies are not required to be disclosed and paragraph 23 of HKAS 24 warns that disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are only made if such terms can be substantiated.

The disclosures are generally made in amongst other notes (for example, loans to related parties are often disclosed in the notes relating to non-current financial assets) or in a separate note on related party transactions. As with all HKFRSs, HKAS 24's requirements apply where the effect would be material. Judgement is therefore required in deciding the extent to which transactions are disclosed and, if the transactions are disclosed, whether those disclosures are made individually or on an aggregated basis. Paragraph 19 of HKAS 24 specifies that the disclosures should be at least disaggregated by type of related party i.e. transactions with parents should be shown separately from transactions with associates or key management personnel, for example. Where applicable, listed issuers should also take care to follow the requirements of Chapter 14A of the MBLRs concerning approval and disclosure of connected transactions. See also footnote 265.

HKAS 24.25 - 27

263 HKAS 24 provides relief to government-related entities from the general disclosure requirements for related party disclosures in respect of transactions with the government to which they are related or with parties related to the same government. If entities take advantage of this relief, they need to provide alternative disclosures as set out in paragraph 26 of HKAS 24. These alternative disclosures require entities to apply judgement to assess whether a transaction with these other government-related entities is individually or collectively significant enough to be disclosed in the financial statements and if so, whether the disclosure should be quantitative or qualitative. In applying judgement, the entities should consider the closeness of the related party relationship and other factors relevant in establishing the level of significance of the transaction, such as whether it is significant in terms of size, carried out on non-market terms and/or outside normal day-to-day business operations. Government-related entities are not exempt from the general disclosure requirements in HKAS 24 so far as transactions with other related parties are concerned. For example, they are still required to disclose details of key management personnel compensation (see footnote 264). Please talk to your usual KPMG contact if you would like further guidance in this respect.

(b) Financing arrangements[262]

HKAS 24.18-20

	Notes	Amounts owed to the group by related parties		Amounts owed by the group to related parties		Related interest (expense)/ income	
		As at 31 December		As at 31 December		Year ended 31 December	
		2020	2019	**2020**	2019	**2020**	2019
		$'000	$'000	**$'000**	$'000	**$'000**	$'000
Amount due to parent company	(i)	**-**	-	**4,500**	4,500	**-**	-
Amounts due to fellow subsidiaries	(i)	**-**	-	**4,700**	4,200	**-**	-
Loans from fellow subsidiaries	(ii)	**-**	-	**2,665**	906	**(262)**	(89)
Loans to associates	(iii), (iv)	**31,601**	21,596	**-**	-	**-**	-
Loans to members of key management personnel and entities controlled by members of key management personnel	(iv), (v)	**400**	546			**29**	32
Lease liabilities due to fellow subsidiary	(vi)	**-**	-	**1,168**	2,268	**(100)**	(165)

Notes:

(i) The outstanding balances with these related parties are trading balances included in "Trade and other payables" (note 24).

(ii) The loans from fellow subsidiaries bear interest at a prime rate plus [●]% per annum, are unsecured and repayable on 31 December 2025. The loans are included in "Non-current interest-bearing borrowings" (note 25).

(iii) The loans to the associates bear floating interest rates of [●]% and [●]% per annum and will both mature in 2027. The loans are fully secured by properties held by the associates. The loans are included in "Other non-current financial assets" (note 17).

(iv) No loss allowances have been made in respect of these loans.

(v) Further details of the loans and guarantees given on behalf of directors of the company are disclosed in note 23.

(vi) The outstanding balances arising from the leasing arrangement with the fellow subsidiary are included in "Lease liabilities" (note 27). Further details of the lease arrangement is set out in note (c) below.

Details of new loans and loans repaid during the period are disclosed in the consolidated cash flow statement.

HKAS 24.17 [264] HKAS 24 requires disclosure of key management personnel compensation in total and for each of (i) short-term employee benefits; (ii) post-employment benefits; (iii) other long-term benefits; (iv) termination benefits; and (v) share-based payments. HKAS 24 defines key management personnel as being those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

For some entities all members of key management personnel will also be directors of that entity and therefore these requirements of HKAS 24 will usually be met by giving more details in respect of the amounts to be disclosed under section 383(1) of the CO (see note 7 to these illustrative financial statements).

However, where consolidated financial statements are prepared, the reporting entity is the group and therefore the disclosure of key management personnel compensation may need to be extended to include amounts payable to individuals who are not directors of the holding company but nevertheless should be regarded as part of the key management of the group, for example executive directors of major subsidiaries. These persons may, or may not, also be included in the disclosure of "highest paid employees" required by paragraph A16(25) of the Listing Rules (see note 8 to these illustrative financial statements) depending on the nature of their duties and the amount of their compensation package.

(c) Leasing arrangement[262, 265]

In January 2019, 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 payable by the group under the lease is $100,000 per month, which was determined with reference to amounts charged by the fellow subsidiary to third parties. At the commencement date of the lease, the group recognised a right-of-use asset and a lease liability of $3,303,000.

(d) Applicability of the Listing Rules relating to connected transactions

A16(8)(2) *[The related party transactions in respect of … and … above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section […] of the Directors' Report.] OR [The related party transactions in respect of … and … above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are **[**below the de minimis threshold under Rule 14A.76(1)**][**or describe other exemption applicable to the transactions**]**] OR [None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.]*[265]

A16(8)(2) 265 In accordance with paragraph 8(2) of Appendix 16 to the MBLRs, where a listed issuer includes in its annual report particulars of a related party transaction or continuing related party transaction (as the case may be) in accordance with applicable accounting standards adopted for the preparation of its annual financial statements, it must specify whether or not the transaction falls under the definition of "connected transaction" or "continuing connected transaction" (as the case may be) in Chapter 14A of the MBLRs. The listed issuer must also confirm whether or not it has complied with the disclosure requirements in accordance with Chapter 14A of the MBLRs. In this regard, it would be helpful to the readers to provide a cross reference to where in the Annual Report such disclosures have been made, where applicable.

According to the response to question 23 in FAQ Series 20 "Rule requirements relating to notifiable transactions, connected transactions, mineral companies, issues of securities and corporate governance code" released by the Listing Division of the SEHK on 28 February 2013, when the related party transaction is a connected transaction but is exempt from the disclosure requirements of Chapter 14A of the MBLRs, the listed issuer should specify this fact and describe the exemption applicable to the transaction.

In addition, according to the responses to FAQs on notifiable and connected transactions rules relating to lease transactions of listed issuers adopting HKFRS/IFRS 16 "Leases" (or similar accounting standards in other jurisdictions) released by the Listing Division of the SEHK (last update on 17 April 2020),

- where the lease is subject to an agreement with fixed lease payments, the transaction is treated as a one-off connected transaction and the recognition of a right-of-use asset is regarded as an acquisition of capital asset under the definition of transaction set out in Main Board Rule 14.04(1)(a); and
- where the lease is subject to an agreement with variable lease payments (such as turnover rent), these payments are treated as continuing connected transaction under Main Board Rule 14A.31. The listed issuer is required to set annual caps on the variable lease payments to be made each year under the agreement.

Sch 4, Part 1, Section 2(1)(a)

37 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION[266]

Reference		2020 $'000	2020 $'000	2019 $'000	2019 $'000
HKAS 1.113 HKAS 1.51(e) HKAS 1.60 & 66	**Non-current assets**				
HKAS 1.54(a)	Property, plant and equipment		**94,667**		86,865
	Investments in subsidiaries		**74,395**		69,395
HKAS 1.54(d)	Other financial assets		**31,726**		27,289
			200,788		183,549
HKAS 1.60 & 66	**Current assets**				
HKAS 1.54(d) HKFRS 7.8(a)(ii)	Trading securities	**58,331**		58,020	
HKAS 1.54(g)	Inventories	**50,368**		59,134	
HKAS 1.54(h) HKFRS 7.8(f)	Trade and other receivables	**230,947**		246,903	
HKAS 1.54(i)	Cash and cash equivalents	**55,185**		32,451	
		394,831		396,508	
HKAS 1.60 & 69	**Current liabilities**				
HKAS 1.54(k)	Trade and other payables	**76,062**		103,369	
HKAS 1.54(m) HKFRS 7.8(g)	Bank loans	**19,441**		17,208	
HKAS 1.54(m) HKFRS 16.47(b)	Lease liabilities	**21,329**		15,271	
HKAS 1.54(n)	Current taxation	**2,475**		2,440	
		119,307		138,288	
	Net current assets		**275,524**		258,220
	Total assets less current liabilities		**476,312**		441,769
HKAS 1.60 & 69	**Non- current liabilities**				
HKAS 1.54(m) HKFRS 7.8(g)	Interest-bearing borrowings	**32,119**		38,174	
HKAS 1.54(m) HKFRS 16.47(b)	Lease liabilities	**48,963**		53,202	
HKAS 1.54(o) & 56	Deferred tax liabilities	**3,103**		2,418	
			84,185		93,794
	NET ASSETS		**392,127**		347,975

Sch 4, Part 1, Section 2(1)(a), (3)

266 In accordance with Schedule 4 to the CO when a company prepares consolidated financial statements, a company-level statement of financial position is required to be disclosed as a note to the consolidated financial statements. Schedule 4 specifically requires that the company-level statement of financial position must be in the format in which that statement would have been prepared if the holding company had not been required to prepare any annual consolidated financial statements for the financial year. This means that the company should apply the general requirements of HKAS 1 to prepare the company-level statement of financial position as if the statement were presented as a primary statement.

HKAS 1.113-114

The CO is not explicit as to where in the notes the company-level statement of financial position should be placed. If the directors wish to draw attention to this statement and yet comply with a literal interpretation of Schedule 4, they would be advised to include the statement as note 1 or otherwise in a prominent position in the notes to the consolidated financial statements. In this illustration, the company-level statement of financial position is disclosed as a separate note at the end of the notes relating to the financial year (i.e. immediately before the note on non-adjusting events after the reporting period). However, the statement can be located in any place in the notes to the consolidated financial statements which is considered sensible, in accordance with HKAS 1's general principle that notes should be presented in a systematic manner.

			2020		2019	
			$'000	**$'000**	$'000	$'000
HKAS 1.54(r)	**CAPITAL AND RESERVES**	32(a)				
	Share capital			**181,400**		175,000
	Reserves			**210,727**		172,975
	TOTAL EQUITY			**392,127**		347,975

S387 Approved and authorised for issue by the board of directors on 28 March 2021.[267]

Hon WS Tan)
) Directors
SK Ho)

HKAS 10.19 38 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Subsequent to the end of the reporting period, one of the group's major trade debtors went into liquidation following a serious fire at their main production facilities in January 2021. Of the $1,150,000 owed by the debtor, the group expects to recover less than $100,000. No adjustment has been made in these financial statements in this regard.

(b) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 32(b).

HKAS 1.76(a) **(c)** After the end of the reporting period the group reached an agreement with its bankers to re-finance a loan of $10,000,000 originally due within 12 months of the end of the reporting period. The loan is now repayable in March 2023 and bears interest at [●]% per annum. No adjustments have been made to these financial statements as a result of this re-financing and therefore the loan is presented as a current liability as at the end of the reporting period.

[Consider disclosing any subsequent events in relation to the COVID-19 pandemic, giving further details in accordance with HKAS 10.19.]

S387 267 Section 387 of the CO states that the directors must sign a statement of financial position that "forms part of any financial statements". As confirmed by the Companies Registry in its response to Q15 of FAQ series on the CO (under the category "Accounts and Audit"), this requirement also applies to the company-level statement of financial position disclosed as a note to the consolidated financial statements. The statement must therefore be approved by the directors and signed on their behalf by 2 directors (or in the case of a company having only one director, by that director). The names of the directors who signed the statement of financial position on the directors' behalf should be stated.

The Companies Registry's FAQ series on the CO can be found in the Companies Registry's website at www.cr.gov.hk/en/companies_ordinance/faq_index.htm.

So far as non-Hong Kong incorporated issuers are concerned, as section 387 is not part of the SEHK's level playing field principle, they are not required to sign the company-level statement of financial position disclosed as a note to the consolidated financial statements, unless required by, for example, the Companies Law in their country of incorporation.

[39 COMPARATIVE FIGURES[268]

HKAS 1.41

As a result of the application of [• • •] certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2020. Further details of the changes in accounting policies are disclosed in note 1(c).]

40 IMMEDIATE AND ULTIMATE CONTROLLING PARTY[269, 270]

Sch 4, Part 1, Section 3
HKAS 1.138(c)
HKAS 24.13

At 31 December 2020, the directors consider the immediate parent and ultimate controlling party of the group to be HK (Holding) Co. Ltd, which is incorporated in Hong Kong. This entity does not produce financial statements available for public use.

HKAS 1.41

268 When the presentation or classification of items in the financial statements is amended, paragraph 41 of HKAS 1 requires the comparative amounts to be reclassified unless it is impracticable to do so. It also requires the disclosure of the reason for and a description of the nature of material reclassifications as well as the amount of each item or class of items that is reclassified. Note also that where the reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e. here: 1 January 2019), this would trigger the requirement to present an opening statement of financial position as per footnote 56. It is not necessary to make a negative statement if no comparatives have been adjusted.

HKAS 24.13
24.16

269 HKAS 24 requires disclosure of both the immediate parent of the reporting entity and, if different, the ultimate controlling party. The ultimate controlling party may be a body corporate, or could be an unincorporated entity or an individual. If neither the immediate parent nor the ultimate controlling party produces financial statements available for public use, HKAS 24 requires the name of the next most senior parent that does so to be disclosed. The standard does not require a negative statement to be given if there are no such entities. However, users may find such a statement informative.

Sch 4, Part 1,
Section 3

270 Part 1 of Schedule 4 to the CO requires disclosure of the name of the "ultimate parent undertaking", i.e., the most senior parent of the reporting entity. This entity could be a body corporate, a partnership or an unincorporated association carrying on a trade or business, whether for profit or not, in accordance with the definition of "undertaking" in Schedule 1 to the CO. If the ultimate parent undertaking is a body corporate, then the country of its incorporation should be disclosed, whereas if it is not a body corporate, then the address of its principal place of business should be disclosed.

Although the disclosure requirements under Part 1 of Schedule 4 to the CO and paragraph 13 of HKAS 24 (see previous note) are similar, it should be noted that where the ultimate parent undertaking is controlled by an individual, additional disclosure will be required to meet both the requirements of the CO (in respect of disclosure of the "ultimate parent undertaking") and HKAS 24 (in respect of disclosure of the "ultimate controlling party").

HKAS 8.30

41 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020[271]

Up to the date of issue of these financial statements[272], the HKICPA has issued a number of amendments, and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, *Reference to the Conceptual Framework*	1 January 2022
Amendments to HKAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*	1 January 2022
Amendments to HKAS 37, *Onerous Contracts — Cost of Fulfilling a Contract*	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022

The group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements [except for the following … *consider naming any specific developments which may have an impact on the entity's results and/or financial position, and giving further details of the impact in accordance with HKAS 8.30-31].*

HKAS 8.30-31 [271] Paragraph 30 of HKAS 8 requires entities to disclose known or reasonably estimable information relevant to assessing the possible impact that application of a new Standard or Interpretation will have on the entity's financial statements in the period of initial application. Paragraph 31 of HKAS 8 lists certain items in this respect which an entity "considers disclosing". These items are:

- the Standard or Interpretation's title;
- the nature of the impending change and its effective date;
- the date at which it plans to apply the HKFRS initially; and
- either a discussion of the impact that initial application is expected to have on the entity's financial statements or, if that impact is not known or reasonably estimable, a statement to that effect.

It is evident from the words "relevant to assessing" and "considers disclosing" in these paragraphs, that management has a certain degree of flexibility in determining how much disclosure is necessary in the circumstances of the entity as regards naming the amendments, new Standards or Interpretations that are currently in issue but not yet adopted, and, if they do name any or all of the amendments, how much information is disclosed about the possible impact.

There is no "one-size-fits-all" wording to meet this requirement. Care must therefore be taken to prepare disclosures which reflect that current state of the entity's own assessment and expectations about the impact of the new amendments/interpretations on the entity's own financial statements.

HKAS 8.30 [272] Paragraph 30 of HKAS 8 does not explicitly state whether the cut-off for this disclosure should be the end of the financial reporting period or the date of approval of the financial statements. In our view, given the requirements in HKAS 10 to disclose non-adjusting events after the reporting period, the cut-off for the disclosure under paragraph 30 of HKAS 8 should be as near as practicable to the date of approval of the financial statements.

Group properties

A16(23)(1) **1 Major properties under development**

Location	Intended use	Stage of completion	Expected date of completion	Site area (sq m)	Gross floor area (sq m)	Group's interest (%)
16 Main Avenue Tsim Sha Tsui Hong Kong	Commercial	Foundations completed	Dec 2021	1,955	27,881	100
100 Richard Street Tsim Sha Tsui Hong Kong	Commercial	80%	Apr 2021	4,093	41,223	100
201 Pink Road Tsueng Kwan O Hong Kong	Residential	70%	Aug 2021	917	25,340	100

A16(23)(1) **2 Major properties held for resale**

Location	Existing use	Gross floor area (sq m)	Group's interest (%)
Hope House 796-802 Green Road, Central, Hong Kong	Office	733	100
Wood Mansion 100 Black Hill Road, Tsueng Kwan O, Hong Kong	Residential	1,826	100

A16(23)(2) **3 Major properties held for investment**

Location	Existing use	Term of lease
Overseas Building 1112-1120 Millers Road, Happy Valley, Hong Kong	Commercial	Long
12/F Deville House 122 House Street, Central, Hong Kong	Office	Long
Level 2, Good Fortune Building, No. 383 Hu Nan Road Xuhui District, Shanghai, China	Residential	Medium

A16(19)

Five year summary

(Expressed in Hong Kong dollars)

	Note	2020	2019	2018	2017	2016
		$'M	$'M	$'M	$'M	$'M
Results						
Revenue	2	**1,084.9**	985.2	939.4	752.5	665.7
Profit from operations	1, 2	**145.4**	121.1	113.8	98.2	76.6
Finance costs	1, 3	**(20.6)**	(16.2)	(9.9)	(7.9)	(7.0)
Share of profits less losses of associates		**13.8**	12.6	10.9	1.4	-
Share of profits of joint venture		**10.7**	10.1	7.0	-	-
Profit before taxation		**149.3**	127.6	121.8	91.7	69.6
Taxation	1, 2, 3	**(24.5)**	(21.3)	(18.4)	(11.2)	(8.9)
Profit for the year		**124.8**	106.3	103.4	80.5	60.7
Attributable to:						
Equity shareholders of the company		**114.4**	96.2	95.3	75.5	57.7
Non-controlling interests		**10.4**	10.1	8.1	5.0	3.0
Profit for the year		**124.8**	106.3	103.4	80.5	60.7
Assets and liabilities						
Fixed assets	1	**319.5**	268.0	186.9	142.8	114.8
Intangible assets		**15.2**	14.4	13.5	-	-
Goodwill		**0.9**	1.1	1.1	2.2	2.8
Interest in associates		**40.3**	29.5	16.8	8.7	8.5
Interest in joint venture		**42.8**	32.1	22.0	-	-
Other financial assets	3	**60.9**	48.4	34.7	36.6	32.0
Deferred tax assets		**2.6**	3.5	3.5	4.5	-
Net current assets	1, 2	**237.2**	244.4	269.6	285.7	272.5
Total assets less current liabilities	1	**719.4**	641.4	548.1	480.5	430.6
Deferred tax liabilities	2, 3	**(19.2)**	(13.8)	(13.3)	(6.7)	(4.3)
Other non-current liabilities	1	**(139.8)**	(139.9)	(91.2)	(53.1)	(49.7)
NET ASSETS		**560.4**	487.7	443.6	420.7	376.6
Capital and reserves						
Share capital and other statutory capital reserves		**181.4**	175.0	175.0	135.0	135.0
Other reserves	2, 3	**296.7**	240.8	206.9	227.5	198.1
Total equity attributable to equity shareholders of the company		**478.1**	415.8	381.9	362.5	333.1
Non-controlling interests		**82.3**	71.9	61.7	58.2	43.5
TOTAL EQUITY		**560.4**	487.7	443.6	420.7	376.6
Earnings per share	4					
Basic		**$1.15**	$0.97	$0.93	$0.81	$0.61
Diluted		**$1.14**	$0.97	$0.93	-	-

Notes to the five year summary[273]:

1 *As a result of the adoption of HKFRS 16, Leases, with effect from 1 January 2019, the group changed its accounting policies in respect of the lessee accounting model. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to recognise right-of-use assets and lease liabilities as at 1 January 2019. After initial recognition of these assets and liabilities, the group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Figures in years earlier than 2019 are stated in accordance with the policies applicable in those years.*

2 *As a result of the adoption of HKFRS 15, Revenue from contracts with customers, with effect from 1 January 2018, the group changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of opening balance adjustments to equity as at 1 January 2018. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.*

3 *The group adopted HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation, from 1 January 2018. As a result, the group changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the group did not restate information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Figures in years earlier than 2018 are stated in accordance with the policies applicable in those years.*

4 *As a result of the sub-division of ordinary shares and bonus issue in 2017 and 2020 respectively, figures for the years from 2016 to 2019 have been adjusted for comparison purposes.*

A16(19) [273] Where the published results and statement of assets and liabilities have not been prepared on a consistent basis, the inconsistency should be explained in the summary.

Appendix A

Index of policies illustrated in note 1 to the illustrative annual financial statements

Appendix B
Recent HKFRS developments

This appendix lists the new Standards, amendments to, and Interpretations of, HKFRSs in issue as at 30 June 2020 which were not yet effective for the periods beginning on or after 1 January 2019 and therefore may need to be considered for the first time in the preparation of the 2020 financial statements. The appendix contains two tables:

- Table B1 lists recent HKFRS developments which are required to be adopted in annual accounting periods beginning on or after 1 January 2020.
- Table B2 lists those developments which are available for early adoption in that period, but are not yet mandatory.

The appendix includes a brief overview of these new developments, focusing particularly on those which are likely to be of interest or concern. All of these developments are as a direct consequence of amendments and revisions to IFRS Standards made by the IASB Board 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 B1:
Amendments to HKFRSs first effective for annual periods beginning 1 January 2020</th></tr>
<tr><td>1 Jan 2020</td><td>Amendments to HKFRS 3, Business combinations

“Definition of a business”</td><td>The amendments aim at clarifying the definition of a business for the purposes of deciding whether a transaction is an acquisition of a business or an asset acquisition. The amendments:
• clarify that a business must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
• remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
• add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
• narrow the definition of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
• add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is a business by considering whether substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable asset.

Entities are required to apply the amendments to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.</td></tr>
<tr><td>1 Jan 2020</td><td>Amendments to HKAS 1, Presentation of financial statements and HKAS 8, Accounting policies, changes in accounting estimates and errors

“Definition of material”</td><td>The amendments aim at helping companies make better materiality judgements without substantively changing existing requirements by clarifying the definition of “material” and its application. They:
• align the wording of the definition of “material” across all HKFRS Standards and the Conceptual Framework and make minor improvements to that wording;
• incorporate supporting requirements in HKAS 1 into the definition to give them more prominence and clarify their applicability; and
• clarify the explanation accompanying the definition of material.</td></tr>
</table>

Effective date*	**Table B1 (continued):** **Amendments to HKFRSs first effective for annual periods beginning 1 January 2020**	
1 Jan 2020	Amendments to HKFRS 9, *Financial Instruments*, HKAS 39, *Financial Instruments: Recognition and Measurement* and HKFRS 7, *Financial Instruments: Disclosures* "Interest Rate Benchmark Reform"	The amendments provide targeted relief for financial instruments that qualify for hedge accounting in the lead up to the reform of interbank offered rates ("IBOR reform"). The amendments provide targeted relief relating to the following areas: • the 'highly probable' requirement; • prospective assessments; • the HKAS 39 retrospective assessments; and • eligibility of risk components. Entities are required to apply the amendments retrospectively to all hedging relationships directly affected by the IBOR reform and provide disclosures for hedging relationships directly affected by IBOR reform. Entities would cease to apply the relief at the earlier of: • when the uncertainty regarding the timing and the amount of interest rate benchmark based cash flows is no longer present; and • the discontinuation of the hedging relationship.

[End of Table B1]

Effective date*	**Table B2: Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2020 but may be adopted early**	
1 Jun 2020	Amendment to HKFRS 16, *Leases* "Covid-19-related rent concessions"	The amendment allows a lessee to by-pass the need to evaluate whether certain qualifying COVID-19-related rent concessions are "lease modifications" and instead, account for those rent concessions as if they were not lease modifications. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic, and only if all of the following conditions are met: • the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; • any reduction in lease payments affects only payments originally due on or before 30 June 2021; and • there is no substantive changes to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 4 June 2020. A lessee is required to apply the amendments retrospectively, with the cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained earnings at the beginning of the annual reporting period.
1 Jan 2021 *	HKFRS 17 "Insurance contracts"#	IFRS 17, which is the source of HKFRS 17, was issued by IASB Board 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. *# *On 25 June 2020, the IASB Board issued amendments to IFRS 17 to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023 and introduce other changes to:* • *simplify some of the requirements;* • *make financial performance easier to explain; and* • *ease transition by providing additional transition reliefs.* *The IASB Board has also issued an amendment to the previous insurance contracts Standard, IFRS 4, to extend the temporary exemption that permits the insurer to apply IAS 39 rather than IFRS 9 to annual periods before 1 January 2023. We anticipate that the HKICPA will soon issue equivalent amendments with the same effective date.*
1 Jan 2022	Amendments to HKFRS 3, *Business Combinations* "Reference to the conceptual framework"	The amendments update the reference to the latest version of *Conceptual Framework* issued in March 2018, and add an exception to the requirement for an entity to refer to the *Conceptual Framework* to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should apply the criteria in HKAS 37 or HK(IFRIC)-Int 21 respectively (instead of the *Conceptual Framework*) to determine whether a present obligation exists at the acquisition date.

Effective date*	**Table B2 (continued):** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2020 but may be adopted early**	
1 Jan 2022	Amendments to HKAS 16, Property, Plant and Equipment "Property, plant and equipment: proceeds before intended Use"	The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment ("PPE") the proceeds from selling items produced before that asset is available for use. Instead, the related sales proceeds together with the costs of providing these items as determined by HKAS 2, are to be included in profit and loss. An entity shall apply the amendments retrospectively, but only to items of PPE made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.
1 Jan 2022	Amendments to HKAS 37, *Provisions, Contingent Liabilities and Contingent Assets* "Onerous contracts — cost of fulfilling a contract"	The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. Entities are required to apply the amendments to contracts for which exist at the date when the amendments are first applied, with the cumulative effect of applying the amendments to be recognised as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.
1 Jan 2022	Annual Improvements to HKFRSs 2018-2020 Cycle - Amendment to HKFRS 1, *First-time Adoption of International Financial Reporting Standards* - Amendment to HKFRS 9, *Financial Instruments* - Amendment to illustrative examples accompanying HKFRS 16, *Leases* - Amendment to HKAS 41, *Agriculture*	This cycle of annual improvements contains amendments to three standards, namely HKFRS 1, HKFRS 9 and HKAS 41, and an amendment to the illustrative examples accompanying HKFRS 16. The amendment to HKFRS 1 provides optional relief for the measurement of cumulative translation differences to those first-time adopters which take advantage of the exemption in paragraph D16(a) of HKFRS 1. Such entities are subsidiaries which become first-time adopters later than their parents. The amendment to HKFRS 9 clarifies that only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf, are included when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. The amendment to the illustrative example 13 accompanying HKFRS 16 removes the fact pattern of a reimbursement relating to leasehold improvements as the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in HKFRS 16. The amendment to HKAS 41 removes the requirement to exclude taxation cash flows when measuring fair value, thereby aligning the fair value measurement requirements in HKAS 41 with those in other IFRS Standards.

<table>
<tr><th>Effective date*</th><th colspan="2">Table B2 (continued):
Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2020 but may be adopted early</th></tr>
<tr><td>1 Jan 2022*</td><td>Amendments to IAS 1, Presentation of financial statements#

"Classification of Liabilities as Current or Non-current"</td><td>The amendments clarify the requirements on determining if a liability is current or non-current, in particular the determination over whether an entity has the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments:
• specify that an entity's right to defer settlement must exist at the end of the reporting period;
• clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;
• clarify how lending conditions affect classification; and
• clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

*# These amendments were issued by IASB Board on 23 January 2020. However, as a result of the COVID-19 pandemic, the IASB Board published an exposure draft "Proposed amendment to IAS 1, Presentation of financial statements: Classification of Liabilities as Current or Non-current - Deferral of Effective Date" on 4 May 2020 proposing to delay the effective date of the amendments by one year to annual reporting periods beginning on or after 1 January 2023. We expect that in due course the HKICPA will issue equivalent amendments which will carry the same effective date as the IASB finally determines.</td></tr>
<tr><td>To be determined</td><td>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"</td><td>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 Board 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 Board's decision and indefinitely deferred the effective date of the amendments to HKFRS 10 and HKAS 28 accordingly.</td></tr>
</table>

[End of Table B2]

Appendix C
Recent IFRIC® agenda decisions

IFRIC agenda decisions relate to financial reporting issues which have been brought to the attention of the IFRS Interpretations Committee (IFRIC), where the IFRIC has decided not to add the issue to its work programme for further deliberation. Often the reason for this is because IFRIC believes that existing IFRS requirements provide enough information to determine the accounting, and an agenda decision is published to explain how the applicable principles and requirements of the IFRS Standards apply to the question submitted. Although agenda decisions are technically non-authoritative as they reflect existing requirements of the Standards, the decisions are viewed as in-substance mandatory by major accounting firms and many regulators.

In March 2019, the IASB Board has issued a communication[1] confirming its view that entities should be entitled to 'sufficient time' to implement changes in accounting policy that result from an agenda decision published by the IFRIC. Although 'sufficient time' depends on an entity's particular facts and circumstances, the IASB Board's expectation is that ''any necessary accounting policy changes will be implemented on a timely basis—in other words, as soon and as quickly as possible''.

This appendix includes a summary of the IFRIC agenda decisions issued since January 2019, starting with the most recent decisions as of the time of writing. These decisions are published in the IASB Foundation's newsletter "IFRIC Update", which is available from their website (https://www.ifrs.org/news-and-events/updates/ifric-updates/) and published shortly after each IFRIC meeting. The website also contains a compilation of past agenda decisions (https://www.ifrs.org/supporting-implementation/how-the-ifrs-interpretations-committee-helps-implementation/#agendadecisions) and recordings of IFRIC meetings (https://www.ifrs.org/news-and-events/calendar/). Considering that HKFRSs are derived from IFRS Standards word-for-word, entities preparing financial statements under HKFRSs or IFRS Standards are expected to change their accounting policies to align with the guidance in the final agenda decisions, to the extent their existing accounting policies differ from those described in the agenda decisions, and any such changes in accounting policies will be implemented in a timely manner. More information on these developments can be obtained from your usual KPMG contact.

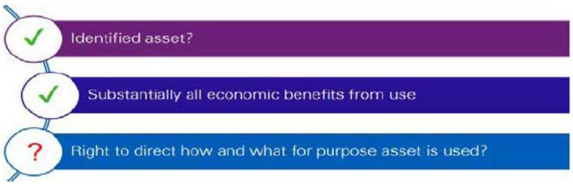
Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Jun 2020	**IFRS 16 – Sale and leaseback with variable payments:** In a sales and leaseback transaction with variable lease payments, how does the seller-lessee measure the right-of-use (ROU) asset arising from the leaseback, and thus determine the amount of any gain or loss recognised at the date of the transaction?	The Committee observed that, in the transaction described in the request, paragraph 100(a) of IFRS 16 – and not paragraphs 23-25 – applies when measuring the initial carrying amount of the ROU asset arising from the leaseback. Accordingly, the ROU asset arising from the leaseback is initially measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. IFRS 16 does not prescribe a method for determining that proportion. In the transaction described in the request, the seller-lessee could determine the proportion by comparing, e.g. (a) the present value of expected payments for the lease (including those that are variable), with (b) the fair value of the asset at the date of the transaction. Because the ROU asset that the seller-lessee retains under the leaseback is measured as a proportion of the PPE's previous carrying amount, the amount of the gain or loss recognised at the time of the sale relates only to the rights transferred to the buyer-lessor. The consequence of this accounting is that seller-lessee recognises a liability at the date of the transaction, even if all the payments for the lease are variable and do not depend on an index or rate. *Note:* *(a) The agenda decision contains a numerical example which illustrates the above measurement principles.* *(b) The IASB Board has decided to undertake a narrow-scope project to amend IFRS 16 to address the subsequent measurement of the liability that arises in a sale and leaseback transaction and expects to issue an exposure draft in Q3 2020.*

1 "Time is of the essence", an article written by the Chair of IFRIC and published on the IFRS Foundation's website (https://www.ifrs.org/news-and-events/2019/03/time-is-of-the-essence/)

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Jun 2020	**IAS 12 - Deferred tax related to an investment in a subsidiary:** How should a parent, in its consolidated financial statements, recognise a deferred tax liability for the taxable temporary difference arising from the undistributed profits of its subsidiary in the fact pattern described?	The Committee observed that, in the fact pattern described in the request, the entity does not apply paragraph 57A of IAS 12—that paragraph applies only in the context of dividends payable by the reporting entity. Further, paragraph 52A of IAS 12 does not apply to the measurement of a current or deferred tax asset or liability that itself reflects the tax consequences of a distribution of profits. Instead, in the fact pattern described in the request, the Committee concluded that the parent uses the distributed tax rate to measure the deferred tax liability related to its investment in the subsidiary under paragraph 51 of IAS 12 and recognises a deferred tax liability in its consolidated financial statements for that taxable temporary difference. (Paragraph 51 of IAS 12 requires that the measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.)
Jun 2020	**IAS 38 & IFRS 15 - Player transfer payments:** How should a football club recognise the player transfer payment received in profit or loss upon derecognition of the associated intangible asset – should it be recognised as (gross) revenue applying IFRS 15, or as part of the (net) gain or loss applying IAS 38?	The Committee concluded that, in the fact pattern described in the request, the entity recognises the player transfer payment received as part of the (net) gain or loss arising from derecognition of the right applying paragraph 113 of IAS 38. The Committee noted that the player transfer payment should not be recognised as (gross) revenue under IFRS 15. The Committee further concluded that in the statement of cash flows the entity presents cash receipts from transfer payments as part of investing activities, as IAS 7 lists cash receipts from sales of intangibles as an example of cash flows from such activities.
Apr 2020	**Multiple tax consequences of recovering an asset:** How should an entity account for deferred tax when the recovery of the carrying amount of an asset gives rise to multiple and distinct tax consequences?	The Committee concluded that an entity should identify temporary differences in a manner that reflects distinct tax consequences by comparing the portion of the asset's carrying amount that will be recovered under a tax regime to the tax deductions under that same regime. In the fact pattern described in the request, multiple tax consequences arise under two different tax regimes when an entity intends to recover an intangible asset (a license) solely through use, both meeting the definition of income taxes under IAS 12: • Income tax regime: the entity pays income tax on the economic benefits it receives from recovering the license's carrying amount through use, but receives no tax deductions in respect of amortization of the license; and • Capital gains tax regime: the entity receives a tax deduction when the license expires. The two tax consequences are distinct in this case because the applicable tax law prohibits the entity from using the capital gain deduction to offset the taxable economic benefits from use in determining taxable profit. In the fact pattern described in the request, the entity therefore identifies a taxable temporary difference under the income tax regime and a deductible temporary difference under the capital gains tax regime. The entity then applies the requirements in IAS 12 in recognising and measuring deferred tax for the identified temporary differences.

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Mar 2020	**IFRS 15 & IAS 38 – Training costs to fulfil a contract:** Which standard applies when training costs are incurred to fulfil a contract with a customer? Can these costs be capitalised under paragraph 95 of IFRS 15 *Revenue from Contracts with Customers*?	The Committee concluded that, in the fact pattern described in the request, the entity applies IAS 38 *Intangible Assets* in accounting for the training costs incurred to fulfil the contract with the customer. This is because paragraph 5 of IAS 38 explicitly includes expenditure on training within IAS 38's scope and therefore paragraph 95 of IFRS 15 does not apply to these costs. Paragraph 69 of IAS 38 provides some examples of expenditure that is recognised as an expense when incurred, which includes the expenditure on training activities. Accordingly, the Committee concluded that, in the fact pattern described in the request, the entity recognises the training costs to fulfil the contract with the customer as an expense when incurred. The Committee noted that the entity's ability to charge to the customer the costs of training does not affect that conclusion.
Mar 2020	**IAS 21 & IAS 29 – Translation of a hyperinflationary foreign operation into the (non-hyperinflationary) presentation currency in the parent's consolidated financial statements:** (a) Presenting exchange differences arising from translating a hyperinflationary foreign operation: How should the entity present the restatement and translation effects of a hyperinflationary foreign operation?	When an entity translates the results and financial position of a hyperinflationary foreign operation into its non-hyperinflationary presentation currency in preparing its consolidated financial statements, the change in the entity's net investment in the foreign operation would include the following two effects: • The restatement effect (paragraph 43 of IAS 21 *The effect of changes in foreign exchange rates*), which results from restating the entity's interest in the equity of the hyperinflationary foreign operation as required by IAS 29 *Financial Reporting in Hyperinflationary Economics*; and • The translation effect (paragraph 42 of IAS 21), which results from translating the entity's interest in the equity of the hyperinflationary foreign operation (excluding the effect of any restatement required by IAS 29) at a closing rate that differs from the previous closing rate. Do the restatement and translation effects meet the definition of an exchange difference? Paragraph 8 of IAS 21 defines an exchange difference as the difference resulting from translating a given number of units of one currency into another currency at different exchange rates. In the fact pattern described in the request, the Committee concluded that either of the following views is acceptable: • View 1: the translation effect alone meets the definition of an exchange difference, or • View 2: the combination of the restatement and translation effects meet the definition of an exchange difference. How does an entity present any exchange difference arising from translating a hyperinflationary foreign operation? IFRIC concluded: • If an entity considers that only the translation effect meets the definition of an exchange difference (i.e. view 1 above), it presents the translation effect in OCI, while presents the restatement effect in equity. • If an entity considers that the combination of the two effects meets the definition of an exchange difference (i.e. view 2 above), it presents both the restatement and translation effects in OCI.

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Mar 2020	**IAS 21 & IAS 29 – Translation of a hyperinflationary foreign operation into the (non-hyperinflationary) presentation currency in the parent's consolidated financial statements *(continued)***: (b) Presenting cumulative pre-hyperinflation exchange differences once a foreign operation becomes hyperinflationary: Should the entity reclassify within equity the cumulative pre-hyperinflation exchange differences when the foreign operation becomes hyperinflationary i.e. should it transfer the cumulative pre-hyperinflation exchange differences to a component of equity that is not subsequently reclassified to profit or loss?	The Committee concluded that, in the fact pattern described in the request, the entity presents the cumulative amount of the exchange differences as a separate component of equity (to which paragraph 48 or 48C of IAS 21 applies) until disposal or partial disposal of the foreign operation. The entity does not reclassify within equity the cumulative pre-hyperinflation exchange differences once the foreign operation becomes hyperinflationary.
Mar 2020	**IAS 21 & IAS 29 – Translation of a hyperinflationary foreign operation into the (non-hyperinflationary) presentation currency in the parent's consolidated financial statements *(continued)***: (c) Presenting comparative amounts when a foreign operation first becomes hyperinflationary: Should an entity restate comparative amounts presented for a foreign operation in its: - annual financial statements for the period in which the foreign operation becomes hyperinflationary; and - interim financial statements in the year after the foreign operation becomes hyperinflationary, if the foreign operation was not hyperinflationary during the comparative interim period?	The Committee observed little diversity in the application of IAS 21 with respect to the questions in part (c) of the request – entities generally do not restate comparative amounts presented in their interim or annual financial statements in the situation described.

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Jan 2020	**Definition of a lease – Decision-making rights:** How should a customer determine whether it has the right to direct the use of an identified asset throughout the period of use, when many but not all of the decisions about 'how and for what purpose' the asset is used are predetermined?	For a contract to contain a lease, there are three key considerations:  The request focuses on the third consideration, i.e. whether the customer has the right to direct the use of an identified asset (in this case, a ship) throughout the term of a contract. In the contract described in the request, the customer can make one important decision about 'how and for what purpose' the ship is used throughout the period of use, with all other decisions about 'how and for what purpose' the ship is used being predetermined. Accordingly, in the contract described in the request, notwithstanding that many other decisions that are 'relevant' are predetermined, the customer still has the right to direct 'how and for what purpose' the ship is used throughout the period of use, and hence the contract contains a lease. Although the operation and maintenance of the ship are essential to its efficient use, the supplier's decisions in this regard do not give it the right to direct 'how and for what purpose' the ship is used.

<table>
<tr><th>Meeting date</th><th>Issue discussed by IFRIC</th><th>Summary of IFRIC's conclusion on the issue</th></tr>
<tr><td>Nov 2019</td><td>Lease term and useful life of leasehold improvements:
(a) In determining the lease term of a cancellable (or renewable) lease and assessing the length of the period for which the contract is enforceable under paragraph B34 of IFRS 16 Leases, should an entity consider the broader economics of the contract, in addition to the contractual termination payment?</td><td>The Committee observed that the "lease term" of a contract for the purposes of IFRS 16 measurement may be longer than the non-cancellable period, but it cannot be longer than the period for which the contract is "enforceable" within the meaning of paragraph B34 of IFRS 16.

As per paragraph B34 of IFRS 16, a lease ceases to be "enforceable" if both parties have the right to terminate the lease without permission from the other party with no more than an insignificant penalty. However, if only one of the parties has such right (say Party A), then the contract is "enforceable" by the other party (Party B) beyond the date on which the contract can be terminated by Party A.*

When determining whether both parties have rights to terminate the lease "with no more than an insignificant penalty", each party to the contract (whether it is the lessor or lessee in the contract) should consider the broader economics of the contract from the perspectives of both parties, and not only the contractual termination payments. Such considerations might include, for example, the cost to the lessee of abandoning or dismantling lease improvements.

If an entity concludes that the contract is enforceable by the lessee beyond the notice period of a cancellable lease (or the initial period of a renewable lease), then the entity (whether it is the lessor or lessee under the contract) applies paragraphs 19 and B38-B40 of IFRS 16 to assess whether the lessee is reasonably certain not to exercise the option to terminate the lease. This involves a consideration of all relevant facts and circumstances that create an economic incentive for the lessee including significant leasehold improvements undertaken (or expected to be undertaken) over the enforceable period.

*Note: The impact on the lease term if only one party has the right to terminate is set out in paragraph B35 of IFRS 16 as follows:

(a) If the termination right is held only by the lessor, then the non-cancellable period of the lease term includes the period covered by the lessor's option to terminate. In this case, the lease term for the purposes of IFRS 16 measurement equals the enforceable period of the contract.
(b) If the termination right is held only by the lessee, then as explained above in point 4, an assessment needs to be made of the likelihood that the lessee will exercise the option. In this case the lease term for the purposes of IFRS 16 measurement may be shorter than the enforceable period of the contract, depending on the outcome of that assessment.

In principle, both the lessor and lessee should make the same assessment of the lease term, although in practice their judgement over the likelihood of the lessee exercising an option may vary, given their different access to information.</td></tr>
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Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Nov 2019	**Lease term and useful life of leasehold improvements *(continued)*:** (b) Is the useful life of any related non-removable leasehold improvements (e.g. fixtures and fittings acquired by the lessee) limited to the lease term as determined under IFRS 16?	In determining the useful life of leasehold improvements, an entity applies paragraphs 56 and 57 of IAS 16. Therefore, an entity considers: (a) any legal or similar limits on the use of the leasehold improvements, e.g. expiry dates of related leases (paragraph 56(d) of IAS 16 *Property, Plant and Equipment*); and (b) the period of the leasehold improvements' expected utility to the entity – which may be shorter than their economic lives (paragraph 57 of IAS 16). There is an interaction between the assessment of useful life under IAS 16 and the assessment of the lease term under paragraph B34 of IFRS 16: (a) If an entity expects to use non-movable leasehold improvements beyond the date on which the contract can be terminated, the existence of those leasehold improvements indicates that the entity might incur a more than insignificant penalty if it terminates the lease and hence the contract might be enforceable for at least the period of expected utility of the leasehold improvements. Therefore the expected useful life of significant leasehold improvements under IAS 16 is a factor to consider when applying paragraph B34 of IFRS 16 to determine the lease term. (b) If the lease term of the related leases is shorter than the economic life of the leasehold improvements, and the entity does not expect to use the leasehold improvements beyond the lease term, then it concludes that the useful life of the leasehold improvements is the same as the lease term. The Committee noted that the conclusion that the useful life of the leasehold improvements is the same as the lease term is often the case for leasehold improvements that the entity will use and benefit from only for as long as it uses the underlying leased asset.
Sep 2019	**Compensation for delays or cancellations:** How should an airline account for its obligation to compensate customers for delayed or cancelled flight if such obligation is imposed by legislation – specifically, is it accounted for as a variable consideration under IFRS 15 *Revenue from contracts with customers* or as a provision under IAS 37 *Provisions, contingent liabilities and contingent assets*?	The Committee observed that an airline's promise to passengers is to transport them from one specified location to another within a specified time period. As such, any compensation for delays or cancellations of flights relates directly to the airline's performance obligation, rather than to harm or damage caused by the airline's service as described in paragraph B33 of IFRS 15. Therefore the obligation to compensate is not accounted for separately as a provision under IAS 37. The fact that legislation, rather than the contract with a passenger, stipulates the compensation payable does not change this conclusion. Accordingly, the compensation is treated as a form of variable consideration, similar to penalties for delayed transfer of an asset as illustrated in Example 20 that accompanies IFRS 15. The airline applies paragraphs 50-59 of IFRS 15 in estimating and constraining the estimate of variable consideration. *Note: The Committee did not consider the question of whether the amount of compensation recognised as a reduction of revenue is limited to reducing the transaction price to nil (i.e. whether it is appropriate to recognise negative revenue from a particular contract if the amount of compensation to a passenger exceeds the amount received from that passenger).*

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Sep 2019	**Lessee's incremental borrowing rate:** Under IFRS 16 *Leases*, is a lessee's incremental borrowing rate required to reflect the interest rate in a loan with a similar payment profile to the lease?	The definition of a lessee's incremental borrowing rate requires a lessee to determine its incremental borrowing rate for a particular lease considering the terms and conditions of the lease, and determine a rate that reflects the rate it would have to pay to borrow: (a) over a similar term to the lease term; (b) with a similar security to the security (collateral) in the lease; (c) the amount needed to obtain an asset of a similar value to the right-of-use asset arising from the lease; and (d) in a similar economic environment to that of the lease. The definition of a lessee's incremental borrowing rate in IFRS 16 does not explicitly require the consideration of the payment profile of lease payments. However, the Committee observed that it would be consistent with the IASB's objective to determine this rate by referring to, as a starting point, a readily observable rate for a loan with not only similar maturity but also similar payment profile to that of the lease.
Sep 2019	**Fair value hedge of foreign currency risk on non-financial assets:** Can foreign currency risk be a separately identifiable and reliably measurable risk component of a non-financial asset held for consumption that an entity can designate as the hedged item in a fair value hedge relationship?	Foreign currency risk can be a separately identifiable and reliably measurable risk component of a non-financial asset held for consumption, provided that the changes in the fair value of the non-financial asset that is attributable to a foreign currency risk could affect the entity's profit or loss. This would be the case when, at a global level, the fair value of a non-financial asset is determined only in one currency and that currency is not the entity's functional currency. In principle, the entity can designate such a non-financial asset as the hedged item in a fair value hedge relationship provided: (a) the designation is consistent with an entity's risk management activities; and (b) an entity applies all applicable requirements in IFRS 9 in determining whether it can apply fair value hedge accounting in its particular circumstances, including requirements related to the formal documentation at the inception of the hedging relationship of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge and hedge effectiveness. In practice, if the entity intends to consume a non-financial asset (rather than to sell it) any changes in the fair value of the non-financial asset will be of limited significance to the entity and hedge accounting will not be acceptable. Therefore, in practice, the Committee expects that only in very limited circumstances would these hedge accounting criteria be met for a non-financial asset held for consumption. This may be the case, for example, if (a) the entity expects to sell the non-financial asset (eg an item of property, plant and equipment) part-way through its economic life; (b) the expected residual value of the asset at the date of expected sale is significant; and (c) the entity manages and uses hedging instruments to hedge the foreign currency risk exposure only on the residual value of the asset.

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Sep 2019	**Presentation of liabilities or assets related to uncertain tax treatments:** In the statement of financial position, must liabilities (or assets) related to uncertain tax treatments recognised by applying IFRIC 23 *Uncertainty over Income Tax Treatments* be presented as part of current/deferred tax liabilities (or assets)? Can they be included within other line items (e.g. provisions) instead?	Uncertain tax liabilities (or assets) recognised by applying IFRIC 23 either fall within the definition of current tax or within the definition of deferred tax, as defined in IAS 12 *Income Taxes*. Given this, the disclosure requirements in IAS 1 *Presentation of Financial Statements* apply to these uncertain tax balances, in the same way as to certain tax balances. Accordingly, applying paragraph 54 of IAS 1, an entity is required to present uncertain tax liabilities (or assets) as part of current/deferred tax liabilities (or assets) in the statement of financial position.
Sep 2019	**Disclosure of changes in liabilities arising from financing activities:** Are the disclosure requirements in paragraphs 44B-44E of IAS 7 *Statement of Cash Flows*, which relate to changes in liabilities arising from financing activities, adequate to meet the objective in paragraph 44A of IAS 7?	The Committee concluded that the disclosure requirements in paragraphs 44B-44E of IAS 7, together with the requirements of IAS 1, are adequate to require an entity to provide disclosures that meet the objective in paragraph 44A of IAS 7. Specifically: (a) In structuring the reconciliation, an entity applies paragraph 44D of IAS 7 and provides information that enables investors to link items included in the reconciliation to amounts reported elsewhere in the financial statements. (b) In disaggregating liabilities arising from financing activities, and cash and non-cash changes those liabilities, an entity applies paragraph 44B of IAS 7 and paragraph 30A of IAS 1, which states that an entity 'shall not reduce the understandability of its financial statements… by aggregating material items that have different natures or functions'. (c) In explaining liabilities arising from financing activities, and cash and non-cash changes in those liabilities, an entity applies paragraph 44B of IAS 7 and paragraph 112(c) of IAS 1, which requires an entity to disclose 'information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them'. An entity would explain each class of liability (or asset) arising from financing activities included in the reconciliation and each reconciling item in a way that (i) provides information about its sources of finance, (ii) enables investors to check their understanding of the entity's cash flows, and (iii) enables investors to link items to the statement of financial position and the statement of cash flows, or related notes.
Sep 2019	**Subsequent expenditure on biological assets:** For biological assets measured at fair value less costs to sell under IAS 41 Agriculture, are costs related to the biological transformation (i.e. subsequent expenditure) capitalised or expensed as incurred?	IAS 41 does not specify the accounting for subsequent expenditure for biological assets measured at fair value less costs to sell. Accordingly, an entity can adopt an accounting policy of either capitalising such subsequent expenditure or recognising it as an expense when incurred. The entity should apply the selected policy consistently to each group of biological assets and disclose the selected policy if that disclosure would assist users of financial statements in understanding how those transactions are reflected in reported financial performance. Capitalising subsequent expenditure or recognising it as an expense has no effect on the fair value measurement of biological assets nor does it have any effect on overall profit or loss; however, it affects the presentation of amounts in the statement of profit or loss. In assessing how to present such subsequent expenditure in the statement of profit or loss, an entity would apply the requirements in paragraphs 81–105 of IAS, in particular the requirements on the presentation of additional line items, headings and subtotals, and the analysis of expenses.

<table>
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<tr><td>Jun 2019</td><td>Crypto currencies:

How to apply IFRSs to holdings of cryptocurrencies?</td><td>A holding of cryptocurrency meets the definition of an intangible asset in IAS 38 on the grounds that
(a) it is capable of being separated from the holder and sold or transferred individually; and
(b) it does not give the holder a right to receive a fixed or determinable number of units of currency.

Cryptocurrencies are not cash or any other form of financial asset.

IAS 2 Inventories applies to cryptocurrencies when they are held for sale in the ordinary course of business. If the entity acts as a broker-trader of cryptocurrencies, then the entity considers the requirements in paragraph 3(b) of IAS 2 for commodity broker-traders who measure their inventories at fair value less costs to sell.

If IAS 2 is not applicable, an entity applies IAS 38 to holdings of cryptocurrencies.

Care should be taken to comply with the relevant disclosure requirements, which may include IAS 1 (judgements and estimates), IFRS 13 (fair value measurements) and IAS 10 (non-adjusting post balance sheet events).</td></tr>
<tr><td>Jun 2019</td><td>Costs to fulfil a contract:

If an entity is using the output method to recognise revenue over time under IFRS 15 Revenue from contracts with customers, can it capitalise past costs as an asset under IFRS 15.95 (i.e. as costs to fulfil a contract)?</td><td>In the fact pattern in the request, the entity incurs costs in constructing the good. At the reporting date, the costs incurred relate to construction work performed on the good that is transferring to the customer as the good is being constructed.

IFRIC concluded that the costs of construction described in the request are costs that relate to the partially satisfied performance obligation in the contract – i.e. they are costs that relate to the entity's past performance.

Those costs do not, therefore, generate or enhance resources of the entity that will be used in continuing to satisfy the performance obligation in the future (paragraph 95(b)). Consequently, those costs do not meet the criteria in paragraph 95 of IFRS 15 to be recognised as an asset.

Those costs should therefore be recognised when incurred in accordance with paragraph 98(c) of IFRS 15.</td></tr>
<tr><td>Jun 2019</td><td>Subsurface rights:

How to apply IFRSs to rights to use underground spaces (such as the right to place a pipeline in a specified underground location for 20 years)</td><td>In the contract described in the request, a pipeline operator (customer) obtains the right to place an oil pipeline in underground space for 20 years in exchange for consideration. The contract specifies the exact location and dimensions (path, width and depth) of the underground space within which the pipeline will be placed. The landowner retains the right to use the surface of the land above the pipeline, but it has no right to access or otherwise change the use of the specified underground space throughout the 20-year period of use.

The contract described in the request contains a lease as defined in IFRS 16 because the customer has the right to direct the use of the specified underground space throughout the 20-year period of use.

Consequently, IFRS 16 applies to this right.</td></tr>
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Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Jun 2019	**Effect of a potential discount on retirement plan classification:** Does the entitlement to a potential discount on annual contributions result in a plan being classified as defined benefit plan, rather than defined contribution plan?	To meet the definition of a defined contribution plan, an entity must (a) have an obligation towards employees to pay fixed contributions into a fund; and (b) not be obliged to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current or prior periods. Consequently, the existence of a right to a potential discount would not in itself result in classifying a post-employment benefit plan as a defined benefit plan. However, in classifying the plan it is important to assess all relevant terms and conditions of a plan, as well as any informal practices that might give rise to a constructive obligation. It may also be necessary to disclose the judgements that management has made regarding the classification of post-employment benefit plans, if those are part of the judgements that had the most significant effect on the amounts recognised in the financial statements, under paragraph 122 of IAS 1 *Presentation of Financial Statements*.
Mar 2019	**Hedge accounting:** How to apply the criterion that a forecast transaction must be 'highly probable' when the transaction volume varies (e.g. the future electricity output or 'load' of a wind farm or solar power plant)?	Some types of forecast transactions have a future volume that is not foreseeable because it varies in response to factors like wind or sunlight (as it is the case for alternative electricity production by wind farms or solar power plants). Such an uncertain future transaction volume does not qualify for hedge accounting because a forecast transaction must be designated with sufficient specificity, which includes both timing and volume ('magnitude'). This means an uncertain future volume does not meet that specificity requirement. The fact that some bespoke derivatives that are used as hedges have the same variability of their notional amount as the future hedged transaction volume is not relevant for the eligibility of hedge accounting (because the 'highly probable' criterion relates to the hedged item only).
Mar 2019	**Physical settlement of contracts to buy or sell a non-financial Item ('own use' or 'normal purchase or sale exception'):** Can the journal entries for derivative accounting at FVPL be reversed on settlement of the contract?	IFRS 9 *Financial Instruments* applies when an entity enters into contracts which need to be physically settled by either delivering or taking delivery of the underlying non-financial item but those contracts do not meet the own use scope exception in paragraph 2.4 of IFRS 9. The entity accounts for such contracts as derivatives at fair value through profit or loss (FVPL). At the settlement date, the entity should derecognize the derivative and: (a) recognize inventory for the non-financial item at the amount of the cash paid plus (or less) the fair value of the derivative on the settlement date (in the case of a purchase contract); or (b) recognize revenue for the sale of the non-financial item at the amount of the cash received plus (or less) the fair value of the derivative on the settlement date (in the case of a sale contract). The request assumes that revenue is recognized on a gross basis for such contracts. IFRS 9 neither permits nor requires an entity to reverse the accumulated gain or loss previously recognized in profit or loss with a corresponding adjustment to either revenue or inventory.

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Mar 2019	**Credit enhancement in measuring expected credit losses:** In which circumstances should a credit enhancement (e.g. collateral) be included in the measurement of expected credit losses on the financial asset to which the enhancement relates?	In accordance with paragraph B5.5.55 of IFRS 9, the cash flows expected from a credit enhancement are included in the measurement of expected credit losses if the credit enhancement is both: (a) part of the contractual terms; and (b) not recognized separately by the entity. Consequently, if a credit enhancement is required to be recognized separately by IFRS Standards, an entity cannot include the cash flows expected from it in the measurement of expected credit losses, even if the credit enhancement is judged to be integral to the contractual terms. An entity applies the applicable IFRS Standard to determine whether it is required to recognize a credit enhancement separately.
Mar 2019	**Curing of a credit-impaired financial asset:** How to present amounts recognized in the statement of profit or loss when a credit-impaired financial asset is subsequently cured?	Generally, interest revenue is calculated by applying the effective interest rate to the gross carrying amount of financial assets. However, when a financial asset becomes credit-impaired, paragraph 5.4.1(b) of IFRS 9 requires an entity to calculate interest revenue by applying the 'effective interest rate to the amortised cost of the financial asset', which is net of any loss allowance. Credit-impaired financial assets are regarded as 'cured' when they are subsequently paid in full or are no longer credit-impaired. Following the curing of the credit-impaired financial assets, the difference between (a) the interest revenue that would have arisen if calculated on the gross carrying amount; and (b) the interest revenue that was actually recognized during the time when the financial asset was credit-impaired, should be presented in the statement of profit or loss as a reversal of impairment losses under paragraph 5.5.8 of IFRS 9. (i.e. you cannot 'catch up' for the part of the interest revenue that was not recognized as the result of using the lower net carrying amount as the basis on which to accrue interest revenue while the financial asset was credit-impaired even if eventually all amounts are collected).
Mar 2019	**Sale of output by a joint operator:** In the specific joint operation described, where a joint operator's actual output received is different from its contractual entitlement, should the joint operator recognize revenue based on the actual output received and sold to third party customers, or based on its contractual entitlement?	In the disproportionate offtake arrangement described in the request, the output received by a joint operator from a joint operation in a reporting period may be different from the output to which it is contractually entitled, and any difference will be settled through future deliveries of output arising from the joint operation rather than settled in cash. In the fact pattern described, the joint operator should recognize revenue to depict the output it has actually received from the joint operation and sold to third party customers. The joint operator should not impute revenue for the output to which it is contractually entitled (and 'sold' to the other joint operator) but which it has not received from the joint operation.
Mar 2019	**Liabilities in relation to a joint operator's interest in a joint operation:** Should a joint operator recognize the full or only its share of a lease liability if it, as the sole signatory, enters into a lease contract for an asset that will be operated jointly as part of a joint operation's activities?	In the fact pattern described in the request, the joint operation that is not structured through a separate vehicle. In addition, the joint operator enters into a lease contract with a third-party lessor as the sole signatory notwithstanding that the leased asset is subject to joint control. The liabilities to be recognized by a joint operator include those for which it has the primary responsibility. In the fact pattern described, the joint operator described in the request is the sole signatory and the primary obligor for the lease contract, and hence should recognize the entire lease liability.

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Mar 2019	**Capitalisation of borrowing costs in relation to constructed good transferred over time:** Does an entity have a qualifying asset for the purposes of capitalising borrowing costs during the construction phase if it has an intention to enter into over-time sales contracts for part-constructed units as soon as it finds suitable customers?	In the fact pattern described in the request, the entity intends to enter into contracts with customers for part-constructed units as soon as it finds suitable customers and the terms of and relevant facts and circumstances relating to the entity's contracts with customers (for both sold and unsold units), satisfy the criteria in paragraph 35(c) of IFRS 15 *Revenue from Contracts with Customers* to recognize revenue over time for each unit. With respect to the fact pattern described, IFRIC concluded that none of the assets that the entity recognises during the construction period (receivable, contract asset or inventory) are qualifying assets under IAS 23 *Borrowing Costs*. This is because: (a) a receivable is a financial asset and is therefore never a qualifying asset as per paragraph 7 of IAS 23; (b) similarly, contract assets are held to collect cash or another financial asset and this is not a use for which it necessarily takes a substantial period of time to get ready; and (c) in this particular fact pattern, as the entity intends to sell the part-constructed units under over-time contracts as soon as it finds suitable customers, the inventory asset (work-in-progress) for unsold goods under construction described in the request is also regarded as being ready for intended sale in its current condition and therefore not a qualifying asset.
Mar 2019	**Customer's right to receive access to the supplier's software hosted on the cloud:** How should a customer account for fees paid or payable to receive access to the supplier's application software in a "software as a service" cloud computing arrangement?	A right to receive future access to the supplier's software running on the supplier's cloud infrastructure does not itself give the customer any decision-making rights about how and for what purpose the software is used. Therefore, the contract does not contain a software lease under IFRS 16. Such right neither gives the customer the power to obtain the future economic benefits flowing from the software itself and to restrict others' access to those benefits. Therefore, the customer does not receive a software intangible asset under IAS 38 *Intangible Assets* at the contract commencement date. Consequently, a contract that conveys to the customer only the right to receive access to the supplier's software in the future is a service contract.
Jan 2019	**Deposits relating to taxes other than income tax:** **How to apply IFRSs to deposits relating to taxes that are outside the scope of IAS 12 Income Taxes (i.e. deposits relating to taxes other than income tax)?**	The tax deposit described in the request was made to a tax authority for a disputed tax amount, which will either be refunded to the entity or used to settle the entity's liability when the dispute is resolved. The tax in question is not an income tax and is therefore outside the scope of IAS 12. The tax deposit gives the entity a right to obtain future economic benefits, either by receiving a cash refund or by using the payment to settle the tax liability. Consequently, the Committee concluded that in the fact pattern described in the request the entity has an asset when it makes the tax deposit to the tax authority. The nature of the tax deposit—whether voluntary or required—does not affect this right and therefore does not affect the conclusion that there is an asset. The right is not a contingent asset as defined by IAS 37 because it is an asset, and not a possible asset, of the entity. No IFRS Standard deals with issues similar or related to the issue that arises in assessing whether the right arising from the tax deposit meets the definition of an asset. However, the issues that need to be addressed in developing and applying an accounting policy for the tax deposit may be similar or related to those that arise for the recognition, measurement, presentation and disclosure of monetary assets. If this is the case, the entity's management would refer to requirements in IFRS Standards dealing with those issues for monetary assets.

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Jan 2019	**Assessment of promised goods or services in contracts with customers:** When a stock exchange provides a listing service, is the admission service distinct from the on-going listing service?	In the fact pattern described in the request, the stock exchange charges the customer a non-refundable upfront fee on initial listing and an ongoing listing fee. The Committee observed that the activities performed by the entity at or near contract inception are required to transfer the goods or services for which the customer has contracted—i.e. the service of being listed on the exchange. However, the entity's performance of those activities does not transfer a service to the customer. The Committee also observed that the listing service transferred to the customer is the same on initial listing and on all subsequent days for which the customer remains listed. Based on the fact pattern described in the request, the Committee concluded that the stock exchange does not promise to transfer any good or service to the customer other than the service of being listed on the exchange. Therefore the admission service is not a distinct service.
Jan 2019	**Investment in a subsidiary accounted for at cost: partial disposal:** In a partial disposal involving a loss of control, does the entity have the option to designate the retained interest as fair value through other comprehensive income under IFRS 9 *Financial Instruments* in the separate financial statements?	In the fact pattern described in the request, an entity initially accounted for an investment in a subsidiary at cost in its separate financial statements. Subsequently, upon a partial disposal, the entity lost control over the investee, and has neither joint control nor significant influence over the investee. As such, the entity applies IFRS 9 to the retained interest for the first time. IFRIC concluded that in the separate financial statements: • on the date the entity loses control of the investee any difference between the cost of the retained interest and its fair value is recognized in profit or loss, applying paragraph 88 of IAS 1 *Presentation of Financial Statements*. This is regardless of the subsequent measurement policy; and • for subsequent measurement, assuming the investment is not held for trading, the entity can choose either to carry at FVOCI or FVPL.

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Jan 2019	**Investment in a subsidiary accounted for at cost: step acquisition:** In the separate financial statements, what is the 'cost' of an investment in a subsidiary acquired in a step acquisition, when the initial interest was accounted for at fair value under IFRS 9 *Financial Instruments*?	In the fact pattern described in the request, an entity initially accounted for an equity investment under IFRS 9 in its separate financial statements i.e. at fair value. Upon the acquisition of additional interest, the investee becomes a subsidiary and is accounted for at cost. In such step acquisition, IFRIC concluded that the initial cost of the investment in the subsidiary can be determined by applying either one of the following two approaches: (a) the fair value of the initial interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest ("fair value as deemed cost approach"); or (b) the consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest ("accumulated cost approach"). The entity should apply the chosen approach consistently to its step acquisition transactions and consider disclosing the chosen approach to assist users in understanding how it accounts for step acquisition transactions. Although both methods are acceptable, IFRIC also noted that in their view, the fair value as deemed cost approach would provide more useful information to users of financial statements than the accumulated cost approach. If an entity chooses to apply the accumulated cost approach, any difference between the fair value of the initial interest at the date obtaining control of the subsidiary and its original consideration is recognized in profit or loss in accordance with paragraph 88 of IAS 1 *Presentation of Financial Statements*. This is irrespective of whether, before obtaining control, the entity presents subsequent changes in fair value of the initial interest in profit or loss or other comprehensive income under IFRS 9.

[End of Table C]

Appendix D
HKFRSs in issue at 30 June 2020

This appendix lists all the Standards in issue at 30 June 2020 in numerical order, with cross-references to any related Interpretations.

In the tables below "*" and "#" have the following meanings:

- "*" indicates that the Standard (or an amendment to it) is first effective for annual periods beginning 1 January 2020. Table B1 of Appendix B contains further details of these recent amendments or new Standards.
- "#" indicates that the Standard (or an amendment to it) is not yet mandatory in annual periods beginning 1 January 2020, but is available for early adoption. Table B2 of Appendix B contains further details of these recent amendments or new Standards.
- "AIP18-20" indicates that the Standard is amended by the "Annual Improvements to HKFRSs 2018-2020 Cycle" omnibus standard. This omnibus standard is effective for annual periods beginning 1 January 2022.

Table D: HKFRSs and HKASs in issue at 30 June 2020		***Related Interpretations***	
HKFRS 1 AIP18-20	First-time adoption of Hong Kong Financial Reporting Standards	*HK(IFRIC) 12*	*Service concession arrangements*
HKFRS 2	Share-based payment	*HK(IFRIC) 19*	*Extinguishing financial liabilities with equity instruments*
HKFRS 3	Business combinations	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
Amendments to HKFRS 3*	Definition of a business	*HK(IFRIC) 19*	*Extinguishing financial liabilities with equity instruments*
Amendments to IFRS 3#	Reference to the conceptual framework	*HK(SIC) 32*	*Intangible assets - Web site costs*
HKFRS 4	Insurance contracts	*Nil*	
Amendments to IFRS 4	Extension of the temporary exemption from applying IFRS 9		
(Note: The amendments to IFRS 4 were issued by the IASB Board on 25 June 2020. We anticipate that the HKICPA will soon issue equivalent amendments.)			
HKFRS 5	Non-current assets held for sale and discontinued operations	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKFRS 6	Exploration for and evaluation of mineral resources	*Nil*	
HKFRS 7	Financial instruments: Disclosures	*HK(IFRIC) 12*	*Service concession arrangements*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7*	Interest rate benchmark reform	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
		HK(INT) 5	*Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause*
HKFRS 8	Operating segments	*Nil*	

Table D (continued):
HKFRSs and HKASs in issue at 30 June 2020

HKFRS 9 AIP18-20	Financial instruments	*HK(IFRIC) 2*	*Members' shares in co-operative entities and similar instruments*
Amendments to HKFRS 9, HKAS 39 and HKFRS 7*	Interest rate benchmark reform	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 10	*Interim financial reporting and impairment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 16	*Hedges of a net investment in a foreign operation*
		HK(IFRIC) 19	*Extinguishing financial liabilities with equity instruments*
HKFRS 10	Consolidated financial statements	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
Amendments to HKFRS 10 and HKAS 28#	Sale or contribution of assets between an investor and its associate or joint venture	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
HKFRS 11	Joint arrangements	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
HKFRS 12	Disclosure of interests in other entities	*Nil*	
HKFRS 13	Fair value measurement	*HK(IFRIC) 2*	*Members' shares in co-operative entities and similar instruments*
		HK(IFRIC) 17	*Distributions of non-cash assets to owners*
		HK(IFRIC) 19	*Extinguishing financial liabilities with equity instruments*
HKFRS 14	Regulatory deferral accounts	*Nil*	
HKFRS 15	Revenue from contracts with customers	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(SIC) 32	*Intangible assets - Web site costs*
HKFRS 16 AIP18-20	Leases	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
Amendment to HKFRS 16#	Covid-19-related rent concessions	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(SIC) 29	*Service concession arrangements: Disclosures*
		HK(SIC) 32	*Intangible assets - Web site costs*
HKFRS 17# Amendments to IFRS 17# (Note: The amendments to IFRS 17 were issued by the IASB Board on 25 June 2020. We anticipate that the HKICPA will soon issue equivalent amendments.)	Insurance contracts	*Nil*	

Table D (continued):
HKFRSs and HKASs in issue at 30 June 2020

HKAS 1	Presentation of financial statements	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
Amendments to HKAS 1 and HKAS 8*	Definition of material	*HK(IFRIC) 14*	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
Amendment to IAS 1#	Classification of liabilities as current or non-current	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
(Note: The amendments to IAS 1 were issued by the IASB Board on 23 January 2020. We anticipate that the HKICPA will soon issue equivalent amendments.)		*HK(IFRIC) 19*	*Extinguishing financial liabilities with equity instruments*
		HK(IFRIC) 20	*Stripping costs in the production phase of a surface mine*
		HK(IFRIC) 21	*Levies*
		HK(IFRIC) 23	*Uncertainty over income tax treatments*
		HK(SIC) 25	*Income taxes – Changes in the tax status of an entity or its shareholders*
		HK(SIC) 29	*Service concession arrangements: Disclosures*
		HK(SIC) 32	*Intangible assets - Web site costs*
		HK(INT) 5	*Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause*
HKAS 2	Inventories	*HK(IFRIC) 20*	*Stripping costs in the production phase of a surface mine*
		HK(SIC) 32	*Intangible assets - Web site costs*
HKAS 7	Statement of cash flows	*Nil*	
HKAS 8	Accounting policies, changes in accounting estimates and errors	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
Amendments to HKAS 1 and HKAS 8*	Definition of material	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 6	*Liabilities arising from participating in a specific market - Waste electrical and electronic equipment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 14	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
		HK(IFRIC) 16	*Hedges of a net investment in a foreign operation*
		HK(IFRIC) 19	*Extinguishing financial liabilities with equity instruments*
		HK(IFRIC) 21	*Levies*
		HK(IFRIC) 22	*Foreign currency transactions and advance consideration*
		HK(IFRIC) 23	*Uncertainty over income tax treatments*
		HK(SIC) 10	*Government assistance - No specific relation to operating activities*
		HK(SIC) 25	*Income taxes – Changes in the tax status of an entity or its shareholders*

Table D (continued):
HKFRSs and HKASs in issue at 30 June 2020

HKAS 10	Events after the reporting period	*HK(IFRIC) 17*	*Distributions of non-cash assets to owners*
		HK(IFRIC) 23	*Uncertainty over income tax treatments*
HKAS 12	Income taxes	*HK(IFRIC) 7*	*Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies*
		HK(IFRIC) 21	*Levies*
		HK(IFRIC) 23	*Uncertainty over income tax treatments*
		HK(SIC) 25	*Income taxes – Changes in the tax status of an entity or its shareholders*
HKAS 16	Property, plant and equipment	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
Amendments to IAS 16#	Property, plant and equipment: proceeds before intended use	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 20	*Stripping costs in the production phase of a surface mine*
		HK(SIC) 29	*Service concession arrangements: Disclosures*
		HK(SIC) 32	*Intangible assets - Web site costs*
HKAS 19	Employee benefits	*HK(IFRIC) 14*	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
HKAS 20	Accounting for government grants and disclosure of government assistance	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 21	*Levies*
		HK(SIC) 10	*Government assistance - No specific relation to operating activities*
HKAS 21	The effects of changes in foreign exchange rates	*HK(IFRIC) 16*	*Hedges of a net investment in a foreign operation*
		HK(IFRIC) 22	*Foreign currency transactions and advance consideration*
HKAS 23	Borrowing costs	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 12	*Service concession arrangements*
HKAS 24	Related party disclosures	*HK(IFRIC) 21*	*Levies*
HKAS 26	Accounting and reporting by retirement benefit plans	*Nil*	
HKAS 27	Separate financial statements	*Nil*	
HKAS 28	Investments in associates and joint ventures	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
Amendments to HKFRS 10 and HKAS 28#	Sale or contribution of assets between an investor and its associate or joint venture		
HKAS 29	Financial reporting in hyperinflationary economies	*HK(IFRIC) 7*	*Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies*

Table D (continued): HKFRSs and HKASs in issue at 30 June 2020			
HKAS 32	Financial instruments: Presentation	*HK(IFRIC) 2*	*Members' shares in co-operative entities and similar instruments*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 19	*Extinguishing financial liabilities with equity instruments*
HKAS 33	Earnings per share	*Nil*	
HKAS 34	Interim financial reporting	*HK(IFRIC) 10*	*Interim financial reporting and impairment*
		HK(IFRIC) 21	*Levies*
HKAS 36	Impairment of assets	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
		HK(IFRIC) 10	*Interim financial reporting and impairment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(SIC) 32	*Intangible assets - Web site costs*
HKAS 37	Provisions, contingent liabilities and contingent assets	*HK(IFRIC) 1*	*Changes in existing decommissioning, restoration and similar liabilities*
Amendments to IAS 37[#]	Onerous contracts — cost of fulfilling a contract	*HK(IFRIC) 5*	*Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds*
		HK(IFRIC) 6	*Liabilities arising from participating in a specific market - Waste electrical and electronic equipment*
		HK(IFRIC) 12	*Service concession arrangements*
		HK(IFRIC) 14	*HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*
		HK(IFRIC) 21	*Levies*
		HK(SIC) 29	*Service concession arrangements: Disclosures*
HKAS 38	Intangible assets	*HK(IFRIC) 12*	*Service concession arrangements*
		HK(IFRIC) 20	*Stripping costs in the production phase of a surface mine*
		HK(SIC) 29	*Service concession arrangements: Disclosures*
		HK(SIC) 32	*Intangible assets - Web site costs*
HKAS 39	Financial instruments: Recognition and measurement Note: Entities are allowed, as an accounting policy choice, to continue to apply the hedge accounting requirements in HKAS 39 instead of HKFRS 9.	*Nil*	
Amendments to HKFRS 9, HKAS 39 and HKFRS 7*	Interest rate benchmark reform		
HKAS 40	Investment property	*Nil*	
HKAS 41 [AIP18-20]	Agriculture	*Nil*	

Appendix E

Exposure drafts in issue at 30 June 2020

Exposure drafts (EDs) are discussion documents issued for comment and are not mandatory. The proposals are an indication with respect to the detailed content of future accounting pronouncements, but they cannot be adopted early to the extent that they contradict existing requirements. Therefore, particular care should be taken if intending to follow any of the proposals or guidance in the EDs that propose changes to existing HKFRSs.

The HKICPA has adopted a practice of inviting comments on EDs issued by the IASB Board during the comment period, for the HKICPA to consider and pass on to the IASB Board as part of its submission. In such cases, the HKICPA has stated it will not issue a specific Hong Kong ED on the same subject unless any changes made by the IASB Board are so significant as to warrant, in the opinion of the HKICPA, seeking further comment. If the HKICPA does not consider it necessary to seek further comment it will generally adopt the Standard or Interpretation, once finalised by the IASB Board.

Exposure drafts	**Expiry date of comment period**
EDs not yet finalised by the IASB Board at 30 June 2020	
Exposure draft, *General Presentation and Disclosures*	30 September 2020
Exposure draft, *Classification of Liabilities as Current or Non-current-Deferral of Effective Date (Proposed amendment to IAS 1)*	3 June 2020
Exposure draft, *Interest Rate Benchmark Reform – Phase 2 (Proposed amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*	25 May 2020
Exposure draft, *Disclosure of Accounting Policies (Proposed amendments to IAS 1 and IFRS Practice Statement 2)*	29 November 2019
Exposure draft, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Proposed amendments to IAS 12)*	14 November 2019
Exposure draft, *Accounting policies and accounting estimates (Proposed amendments to IAS 8)*	15 January 2018

Appendix F
Requirements applicable to non-Hong Kong incorporated entities listed in Hong Kong

In general, overseas issuers incorporated in the common law jurisdictions of Bermuda and Cayman Islands may list on the Stock Exchange of Hong Kong Limited ("Exchange") and the Listing Rules apply as much to them as to Hong Kong issuers, subject to the additional requirements set out or referred to in Chapter 19 of the Main Board Listing Rules ("MBLRs") (or Chapter 24 of the GEM Listing Rules in the case of listing on GEM). PRC issuers (defined as "an issuer duly incorporated in the People's Republic of China as a joint stock limited company" in Chapter 19.A04 of the MBLRs) may also list on the Exchange and the Listing Rules apply as much to them as to Hong Kong issuers, subject to additional requirements, modifications and exceptions set out or referred to in Chapter 19A of the MBLRs (or Chapter 25 of the GEM Listing Rules in the case of listing on GEM).

This Appendix lists out areas where overseas/PRC incorporated entities listed on the Exchange should take particular care, so far as financial reporting is concerned, with a focus on the differences compared to Hong Kong incorporated issuers.

I. Auditor's report

This Guide includes an illustrative audit report on the financial statements of a Hong Kong incorporated issuer prepared under Hong Kong Standard on Auditing 700 (Revised) on pages 23 – 27. The differences between this report and the reports to be issued by auditors when the listed issuer is incorporated outside Hong Kong are summarised below. The full wording of the auditor's report applicable for PRC, Cayman Islands or Bermuda incorporated issuers is included at the end of this Appendix:

	Elements of auditor's report	**Hong Kong incorporated issuers**	**PRC or Cayman Islands incorporated issuers**	**Bermuda incorporated issuers**
1.	Place of incorporation	Although it is not a requirement in HKSA 700 or ISA 700, in Hong Kong it is common practice to disclose the place of incorporation of the company below the title and the addressee of the auditor's report.		
2.	Opinion	• The auditor's opinion is referenced to the applicable financial reporting framework and the Hong Kong Companies Ordinance. • The terms "financial position" and "financial performance" are specifically required to be used in the statement of the auditor's opinion by the Hong Kong Companies Ordinance.	• The auditor's opinion is referenced to the applicable financial reporting framework and the *disclosure requirements* of the Hong Kong Companies Ordinance. • Any terms used in the statement of the auditor's opinion should follow the company law of the country of incorporation. If there is no specific term required by the relevant company law, then the terms "financial position" and "financial performance" may be used to be in line with the Hong Kong market.	
3.	Responsibilities of the directors for the consolidated financial statements	The description of the directors' responsibilities is referenced to the applicable financial reporting framework and the Hong Kong Companies Ordinance.	The description of the directors' responsibilities is referenced to the applicable financial reporting framework and the *disclosure requirements* of the Hong Kong Companies Ordinance.	
4.	Auditor's responsibilities for the audit of the consolidated financial statements	The description of the auditor's responsibilities is referenced to section 405 of the Hong Kong Companies Ordinance.	The description of the auditor's responsibilities is not referenced to any ordinance or legislation.	The description of the auditor's responsibilities is referenced to Section 90 of the Bermuda Companies Act 1981.

II. Disclosures of financial information under the Listing Rules

Appendix 16 to the MBLRs and Chapter 18 of the GEM Listing Rules set out the minimum financial information that listed issuers should include in their financial reports, preliminary announcements, circulars etc. These apply equally to Hong Kong incorporated issuers and non-Hong Kong incorporated issuers. However, both Appendix 16 and Chapter 18 also contain disclosure requirements concerning annual reports which are applicable only to overseas issuers and PRC issuers. These are summarised below:

- overseas issuers or PRC issuers shall include a statement, where applicable, that no pre-emptive rights exist in the jurisdictions in which the listed issuers are incorporated or otherwise established (ref: A16.20);
- overseas issuers or PRC issuers shall include the information necessary to enable holders of their listed securities to obtain any relief from taxation to which they are entitled by reason of their holding of such securities (ref: A16.21 / GEM Rules 24.19 & 25. 31);
- for overseas issuers or PRC issuers, the statement of reserves available for distribution to shareholders required by paragraph 29 of Appendix 16 to the MBLRs or GEM Rule 18.37 should be calculated in accordance with any statutory provisions applicable in the issuer's place of incorporation or, in the absence of such provisions, with generally accepted accounting principles (ref: A16.29(2) / GEM Rules 24.21 & 25.33); and
- for PRC issuers, disclosures required by paragraphs 12-15 and 24 of Appendix 16 to the MBLRs relating to directors' biographical details, interests and short positions in shares, underlying shares and debentures, interests in transactions, arrangements or contracts, service contracts and emoluments also apply to the supervisors of the PRC issuers (similar requirements in GEM Rule 18.28).

III. Applicability of the Hong Kong Companies Ordinance

Paragraph 28 of Appendix 16 to the MBLRs specifically requires listed issuers, whether or not they are incorporated in Hong Kong, to include disclosures required under the following provisions of the Hong Kong Companies Ordinance (Cap. 622) and subsidiary legislation (similar requirements in GEM Rules 24.20 and 25.32):

In financial statements:

(a) Section 383 - Notes to financial statements to contain information on directors' emoluments etc

(b) Schedule 4 - Accounting Disclosures relating to

- Part 1(1) Aggregate amount of authorized loans
- Part 1(2) Statement of financial position to be contained in notes to annual consolidated financial statements
- Part 1(3) Subsidiary's financial statements must contain particulars of ultimate parent undertaking
- Part 2(1) Remuneration of auditor; and

(c) Companies (Disclosure of Information about Benefits of Directors) Regulation

In directors' report:

(a) Section 390 - Contents of directors' report: general#

(b) Section 470 - Permitted indemnity provision to be disclosed in directors' report

(c) Section 543 - Disclosure of management contract

(d) Schedule 5 - Content of Directors' Report: Business Review; and

(e) Companies (Directors' Report) Regulation

Section 390(3)(b) of the Hong Kong Companies Ordinance (Cap. 622) as originally issued requires a company to disclose the names of the directors of its subsidiaries when the directors' report accompanies consolidated financial statements. However, this requirement was explicitly excluded from the level playing field requirements in the MBLRs and therefore non-Hong Kong incorporated issuers were only required to disclose the names of directors of the holding company (Source: A16: Note 28.2)

With effect from 1 February 2019, Section 390 has been amended such that there is no longer a requirement for a Hong Kong incorporated company to disclose the names of the directors of its subsidiaries in the directors' report, provided the list of names is available at the company's registered office or its website. Therefore, with effect from 1 February 2019, there is no longer a difference between Hong Kong incorporated issuers and non-Hong Kong incorporated issuers in this regard, so far as disclosure in the directors' report is concerned.

As a result of the above, in the "Statement of compliance" note in the financial statements of non-Hong Kong incorporated issuers, the word "disclosure" is normally inserted before the words "requirements of the Hong Kong Companies Ordinance", in order to specify that the financial statements have complied with the disclosure aspects of the Hong Kong Companies Ordinance.

Example auditor's report for PRC or Cayman Islands incorporated issuers

Independent auditor's report to the shareholders of [*name of company*]

(Incorporated in the [People's Republic of China][Cayman Islands] with limited liability)

Opinion

We have audited the consolidated financial statements of [*name of company*] ("the company") and its subsidiaries ("the group") set out on pages .... to........, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

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

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

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

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

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

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

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

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

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

28 March 2021

Example auditor's report for Bermuda incorporated issuers

Independent auditor's report to the shareholders of [*name of company*]

(Incorporated in Bermuda with limited liability)

Opinion

We have audited the consolidated financial statements of [*name of company*] ("the company") and its subsidiaries ("the group") set out on pages .... to........, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

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

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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28 March 2021

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