



# Illustrative Interim Financial Report Under Hong Kong Financial Reporting Standards

June 2021

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# Abbreviations

Example of abbreviation used	Sources
CO	Hong Kong Companies Ordinance (Cap. 622)
S436	Section 436 of the Hong Kong Companies Ordinance (Cap. 622)
HKICPA	Hong Kong Institute of Certified Public Accountants
HKFRS	Hong Kong Financial Reporting Standard
HKAS	Hong Kong Accounting Standard
HKAS 34.C7	Paragraph 7 of Appendix C to Hong Kong Accounting Standard 34
HK (IFRIC)	HK (IFRIC) Interpretation
HK (SIC)	HK (SIC) Interpretation
HK (INT)	HK Interpretation
HKSRE	Hong Kong Standard on Review Engagements
HKSRE 2410.43(a)	Paragraph 43(a) of Hong Kong Standard on Review Engagements 2410
IASB Board	International Accounting Standards Board
IFRS Standards	International Financial Reporting Standards
IAS Standards	International Accounting Standards
IFRIC	IFRS Interpretations Committee
SEHK	The Stock Exchange of Hong Kong Limited
MBLRs	Main Board Listing Rules of the SEHK
A16(40)(1)	Paragraph 40(1) of Appendix 16 to the MBLRs
CP	Current common practice in Hong Kong or recommended by KPMG (but not specifically required or recommended in any of the various guidelines or standards)
GAAP	Generally accepted accounting principles

## Foreword

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

This guide includes:

- an illustrative interim financial report for the six months ended 30 June 2021 issued by a fictitious Main Board listed company, HK Listco Ltd ("HK Listco"), together with the independent auditor's review report;
- further information on recent developments in HKFRSs, including a brief overview of their scope and requirements; and
- a table of recent IFRIC<sup>®</sup> agenda decisions, including concise summaries of IFRIC technical conclusions, starting from January 2020.

### Recent financial reporting developments

Appendix A to this guide sets out a list of recent developments in HKFRSs which were not yet effective for the 2020 calendar year-ends and therefore may need to be considered for the first time in the preparation of the 2021 interim financial report, including a brief overview of these developments. The list is current as of 30 June 2021 and contains two tables:

- table A1 lists those amendments to HKFRSs which are required to be adopted in annual accounting periods beginning on or after 1 January 2021; and
- table A2 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<sup>®</sup> Standards by the International Accounting Standards Board (the IASB<sup>®</sup> Board), word for word and with the same effective dates and transitional provisions. As of 30 June 2021 there are no recent amendments to IFRS Standards which the HKICPA has yet to adopt.

As can be seen from table A1, two developments could impact the 2021 interim financial report:

- Amendment to HKFRS 16, *Covid-19-related rent concessions*

In June 2020, the HKICPA issued an amendment to HKFRS 16, *Covid-19-related rent concessions* ("2020 amendment"), which provides a specific relief to lessees that have benefited from rent concessions. Specifically, the 2020 amendment provides optional relief to lessees not to assess whether these rent concessions are lease modifications if they arise as a direct consequence of COVID-19 pandemic and meet all the qualifying criteria. For example, among the qualifying criteria, there is a strict time limit – any reduction in lease payments affects *only* payments originally due on or before 30 June 2021. In response to the continual impact of the COVID-19 pandemic, in April 2021 the HKICPA issued a further amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021* ("2021 amendment") to provide a one-year extension to the above-mentioned time limit from 30 June 2021 to 30 June 2022. The 2021 amendment



is effective for annual reporting periods beginning on or after 1 April 2021, with earlier application permitted. Any cumulative effect of initially applying the 2021 amendment is recognised as an adjustment to the opening balance of retained earnings at the beginning of the annual reporting period. For many lessees that have already early adopted the 2020 amendment in their 2020 financial statements, they may also early adopt the 2021 amendment in their 2021 financial statements. Early application of the 2021 amendment has been illustrated in this Guide. Further details of the practical expedient and the 2021 amendment can be found in footnote 46.

- Amendment to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform – Phase 2*

The amendments might affect financial reporting when entities have contracts that are indexed to benchmark interest rates which are subject to the reform of interbank offered rates (“IBOR reform”). Entities are not required to restate prior periods to reflect the application of the amendments, although entities may do so if it is possible without the use of hindsight.

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.

In addition to these developments, Appendix B to this guide includes a summary of the IFRIC agenda decisions issued since January 2020, starting with the most recent decisions as of the time of writing. 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. 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”.

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

As of the time of writing, the impact of COVID-19 is still being felt by many businesses. 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 interim financial report, other than the rent concession mentioned above. Instead, note 19 is included 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](#). The HKICPA and the Financial Reporting Council (FRC) have also issued relevant guidance in this respect, see [COVID-19 – CPA Information Centre](#) maintained by the HKICPA and [e-News published by the FRC in May 2020](#).

In addition to considering these specific financial reporting requirements, as noted in the e-News published by the FRC in May 2020, entities should be mindful of the need for consistency between the financial information and other parts of the interim report. In particular the business review in the Management Discussion and Analysis (MD&A) is commonly prepared to provide 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 reporting period, 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 Interim Financial Report

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

**30 June 2021**

“Illustrative interim financial report” is for the use of clients, partners and staff of KPMG. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity, or to illustrate all the regulatory or HKFRS disclosures that may need to be made to reflect the particular circumstances of a reporting entity.

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

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



## Introduction

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

The interim financial report is assumed to have been issued by a fictitious Main Board listed company, HK Listco Ltd (“HK Listco”), as a component of their interim report. HK Listco and its subsidiaries are primarily involved in the businesses of manufacturing and sale of electronic products, property development, construction and trading and property investment, in and outside Hong Kong.

HK Listco is assumed to have been applying HKFRSs issued by the HKICPA in prior periods. As the company has a 31 December year end, the interim financial report illustrates the disclosure of the effects of the changes in accounting policies that have been made as a result of the new and revised HKFRSs which are first effective for annual reporting periods beginning on or after 1 January 2021, and for any interim period that is part of such an annual period. Further details of these changes and how they have been illustrated in HK Listco’s interim financial report can be found in the Foreword to this guide.

As further discussed in the Foreword to this guide, to assist in the assessment of the effects of the new and revised standards, Appendix A to this guide contains further information on the new HKFRSs. The full text of the HKFRSs is available from the HKICPA’s website, [www.hkicpa.org.hk](http://www.hkicpa.org.hk), under “Standards and regulation/Standards/Members’ Handbook and Due Process/ Due Process/Financial reporting”. For a checklist of disclosures required by HKAS/IAS 34, you may refer to the publication “Disclosure checklist: Interim financial reports” issued by our KPMG International Standards Group, available on KPMG China’s website at [www.kpmg.com/cn](http://www.kpmg.com/cn) under “Insights/IFRS News/HK/IFRS Illustrative Disclosure/Guides to IFRS financial statements/Interim disclosure checklists”.

### Sources of disclosure requirements

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

The format and wording of this interim financial report are illustrative only and hence are not intended to be mandatory. Other methods or styles of presentation adopted may be equally acceptable provided that they comply with the MBLRs and HKAS 34. Similarly, a company is free to disclose more than the minimum level of disclosure required by the SEHK and may, for example, include a complete set of financial statements as defined in HKAS 1 in its interim financial report.

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

### **Extent of disclosure required in a condensed interim financial report**

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

- HKAS 34.10 requires additional line items or notes to be included in the interim financial report, in addition to headings and subtotals provided in the most recent annual financial statements, if their omission would make the condensed interim financial statements misleading.
- HKAS 34.15 and HKAS 34.15C require entities to include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of entities since the end of the last annual reporting period. HKAS 34.15B provides a list of events and transactions for which disclosures would be required if they are significant, and specifies that this list is not exhaustive (paragraph 40(3) of Appendix 16 to the MBLRs also requires disclosure of any supplementary information which is necessary for a reasonable appreciation of the interim results).
- HKAS 34.16A(c) requires disclosure of the nature and amounts of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

Materiality is relevant to the presentation and disclosure of the items in the financial statements. To help preparers of financial statements, the HKICPA had previously refined the definition of “material” stating 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”.

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. In addition, 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. An entity shall also consider HKFRS Practice Statement 2, *Making materiality judgements*, which provides guidance and examples on applying materiality in preparing financial statements.

In April 2021, the HKICPA issued amendments to HKAS 1 and updated HKFRS Practice Statement 2 following feedback that more guidance was needed to help entities decide what accounting policy information should be disclosed. The amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. The updated HKFRS Practice Statement 2 also includes further guidance and additional examples on applying the principles of materiality to accounting policy disclosures. The amendments are effective from 1 January 2023, with earlier application permitted.

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

### **Compliance with IAS 34, *Interim financial reporting***

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





# HK Listco Ltd

## 香港上市有限公司

(Stock code: ••••)<sup>1</sup>

(formerly Model Electronics Company Limited)<sup>2</sup>

**2021**

### Interim Financial Report for the six months ended 30 June 2021

LR13.51A

<sup>1</sup> 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 2007, 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 2007. This guidance states that where an issuer publishes a financial report with a glossy cover, it is acceptable to include the stock code in the corporate or shareholder information section of the document, provided the stock code is displayed prominently in such information. It also states that this application is a modification to the strict wording of Rule 13.51A, for which the SEHK has obtained consent from the Securities and Futures Commission. If in any doubt about whether such guidance is still current at the time of preparing the interim report, SEHK’s Listing Division should be consulted.

HKAS 1.51(a)

<sup>2</sup> 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.

If the name of the company had recently been changed, we would expect that the company will disclose this fact in the interim report. The following is an example wording for describing such change:

“By a special resolution passed on [●], 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.”

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HKAS 1.8, 10, 10A HKAS 34.8(b)	<p><sup>3</sup> In this illustration, HK Listco uses the titles “Statement of profit or loss” and “Statement of profit or loss and other comprehensive income”, which are the titles used in HKAS 1 and HKAS 34. However, as allowed by paragraph 10 of HKAS 1, entities may use other titles for the statements. For example, the entity may use the titles “Income statement” and “Statement of comprehensive income”.</p> <p>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.</p> <p>Whatever titles and terms are used, care should be taken to ensure that they are used consistently throughout the financial statements.</p>
A16(4) & (40)(1)  HKAS 34.10	<p><sup>4</sup> MBLRs do not specify the minimum information to be included in the primary statements. Therefore, a listed issuer is allowed to condense the interim statement of comprehensive income to the extent allowed by HKAS 34. However, entities are not prohibited from disclosing more than this minimum. In this illustration, HK Listco chooses to present the same extent of information on the face of the consolidated statement of profit or loss as included in the annual financial statements.</p>
HKAS 34.8A	<p><sup>5</sup> In accordance with paragraph 8A of HKAS 34, the presentation of comprehensive income under HKAS 1 should be consistent between the interim report and the annual financial statements. That is, if an entity presents total comprehensive income using a two statement approach (i.e. presents a separate statement of profit or loss (otherwise known as “income statement”) and statement of profit or loss and other comprehensive income (otherwise known as “statement of comprehensive income”)) in its annual financial statements in accordance with HKAS 1, it should also present such statements in its interim report.</p>
HKAS 34.28	<p>In addition, where an entity uses new policies or entered into new or significant transactions during the interim period, management should consider how they would reflect these in the statement of comprehensive income in a full set of financial statements and make adjustments to the interim statement of comprehensive income accordingly.</p>
CP	<p><sup>6</sup> Each item on the face of the statement of profit or loss/the statement of profit or loss and other comprehensive income would generally be cross-referenced to any related information in the notes.</p>
A16(43)	<p><sup>7</sup> Where the accounting information provided in an interim financial report has not been audited, that fact must be stated. If the accounting information contained in an interim report has been audited by the listed issuer’s auditors, their report thereon including any qualifications shall be reproduced in full in the interim report.</p>
HKAS 1.99	<p><sup>8</sup> 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).</p>
HKAS 2.38	<p>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.</p>
HKAS 1.45, 85 HKAS 40.76(d)	<p><sup>9</sup> Neither HKAS 1 nor HKAS 40, <i>Investment property</i>, prescribe where movements in the fair value of investment properties should be presented on the face of the statement of profit or loss/the statement of profit or loss and other comprehensive income, nor whether they should be separately presented from other items of income and expense. However, once a form of presentation has been adopted by an entity, it should be followed consistently from one period to the next unless it is apparent that another presentation would be more appropriate.</p>
HKAS 34.11A	<p><sup>10</sup> Paragraph 11A of HKAS 34 requires the basic and diluted earnings per share to be presented in the statement that presents the items of profit or loss for that interim period, i.e. the consolidated statement of profit or loss in the case of HK Listco.</p>
HKAS 1.107, BC75	<p><sup>11</sup> 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.</p>

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

## Consolidated statement of profit or loss<sup>A3, 4, 5, 6</sup> for the six months ended 30 June 2021 – unaudited<sup>7</sup>

(Expressed in Hong Kong dollars)

HKAS  
34.15B(b)

	Note	Six months ended 30 June	
		2021	2020
		\$'000	\$'000
<b>Revenue</b>	3 & 4	542,448	492,620
Cost of sales <sup>8</sup>	5 & 9	(404,254)	(366,788)
<b>Gross profit</b>		<u>138,194</u>	<u>125,832</u>
Valuation gains on investment property		11,490	4,260
Valuation losses on investment property		(2,360)	(1,000)
<b>Net valuation gain on investment property<sup>8</sup></b>	8(d)	<u>9,130</u>	<u>3,260</u>
Other income <sup>12</sup>	5	8,404	7,081
Distribution costs <sup>8</sup>		(25,281)	(23,514)
Administrative expenses <sup>8</sup>		(41,610)	(38,497)
Research and development costs <sup>8, 13</sup>		(2,780)	(2,400)
Impairment losses on trade receivables and contract assets <sup>14</sup>		(850)	(680)
Other operating expenses <sup>8, 15</sup>		<u>(617)</u>	<u>(701)</u>
<b>Profit from operations</b>		<u>84,590</u>	<u>70,381</u>
Finance costs	5	(10,366)	(7,936)
Share of profits less losses of associates		2,250	1,322
Share of profits of joint venture		335	68
<b>Profit before taxation</b>	5	<u>76,809</u>	<u>63,835</u>
Income tax	6	<u>(13,602)</u>	<u>(10,668)</u>
<b>Profit for the period</b>		<u><u>63,207</u></u>	<u><u>53,167</u></u>
<b>Attributable to:</b>			
Equity shareholders of the company		57,999	48,083
Non-controlling interests		5,208	5,084
<b>Profit for the period</b>		<u><u>63,207</u></u>	<u><u>53,167</u></u>
<b>Earnings per share<sup>10</sup></b>	7		
Basic		<u>\$0.58</u>	<u>\$0.48</u>
Diluted		<u><u>\$0.58</u></u>	<u><u>\$0.48</u></u>

HKAS  
34.11 & 11A

The notes on pages 26 to 54 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 13<sup>11</sup>.

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HKAS 1.82(a) <sup>12</sup> In this illustration, HK Listco's interest income arises from bank deposits, loans to associates and refundable rental deposits. As HK Listco does not consider such interest income as income arising in the course of its ordinary activities, it includes interest income as part of "other income". If the interest income constituted part of income arising in the course of ordinary activities and therefore "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 38.126-127 <sup>13</sup> In this illustration, HK Listco presents its expense by function (see footnote 8), and regards "research and development" as a separate function within the entity.

For research and development expenditure, an entity is required to disclose the aggregate amount recognised as an expense during the period. Research and development expenditure comprises all expenditure that is directly attributable to research and development activities. Paragraph 66 of HKAS 38 provides the following examples of directly attributable costs:

- costs of materials and services used or consumed in generating the intangible asset;
- costs of employee benefits arising from the generation of the intangible asset;
- fees to register a legal right; and
- amortisation of patents and licences that are used to generate the intangible asset.

HKAS 34.15B(b) <sup>14</sup> HKAS 34 requires the disclosure of impairment loss recognised or reversed in relation to assets arising from contracts with customers, if it is significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period.

HKAS 1.82(ba) In addition, paragraph 82(ba) of HKAS 1 requires such impairment losses (including reversals of impairment losses or impairment gains) to be presented as a single amount in the statement of profit or loss/the statement of profit or loss and other comprehensive income.

HKAS 1.82 <sup>15</sup> Apart from 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 1.82A<sup>16</sup> 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 did not have any share of other comprehensive income of associates and joint ventures during the reporting period.

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

- HKAS 1.92-94
- Items that will not be reclassified to profit or loss:
    - changes in the revaluation surplus on property, plant and equipment recognised under paragraphs 39 and 40 of HKAS 16, 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 120I, 127-130 of HKAS 19;
    - remeasurements of equity investments designated at fair value through other comprehensive income in accordance with paragraph 5.7.5 of HKFRS 9;
  - Items that may be reclassified subsequently to profit or loss:
    - gains and losses arising from translating the financial statements of a foreign operation in accordance with paragraphs 32 and 39 of HKAS 21;
    - gains and losses on re-measuring debt investments in accordance with paragraph 4.1.2A of HKFRS 9; and
    - the effective portion of gains and losses on hedging instruments in a cash flow hedge or hedge of a net investment in a foreign operation in accordance with paragraphs 6.5.11(d) and 6.5.14 of HKFRS 9.

HKAS 34.10 HKAS 1 allows reclassification adjustments be presented either in the statement of profit or loss and other comprehensive income or in the notes. This presentation choice should be applied consistently between the interim financial statements and the annual financial statements. Consistent with the choice applied in its annual financial statements, in this illustration HK Listco presents other comprehensive income after reclassification adjustments on the face of the statement of profit or loss and other comprehensive income.

HKFRS 9.6.5.11(d) 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 this illustration, the basis adjustment is shown as a separate line item in the consolidated statement of changes in equity.

HKAS 1.90-91<sup>17</sup> Entities are allowed to present the items of other comprehensive income on the face of the statement of profit or loss and other comprehensive income either (a) net of related tax effects, or (b) before related tax effects with the aggregate tax shown separately. If the alternative (b) is elected, then the "aggregate" amount should be allocated between the items that may be reclassified subsequently to profit or loss and those that will not be reclassified subsequently to profit or loss.

HKAS 34.10 Consistent with the choice applied in its annual financial statements, in this illustration HK Listco presents other comprehensive income net of tax on the face of the statement of profit or loss and other comprehensive income.

<sup>18</sup> As explained in footnote 16, 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 requirement for the statement of changes in equity, it may be useful to specify whether the fair value reserves are recycling or not.

In this illustration, 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.

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

## Consolidated statement of profit or loss and other comprehensive income<sup>3, 6</sup> for the six months ended 30 June 2021 – unaudited<sup>7</sup> (Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2021	2020
		\$'000	\$'000
<b>Profit for the period</b>		63,207	53,167
<b>Other comprehensive income<sup>16</sup> for the period (after tax<sup>17</sup> and reclassification adjustments<sup>16</sup>):</b>			
Items that will not be reclassified to profit or loss <sup>16</sup> :			
Surplus on revaluation of land and buildings held for own use	8(d)	13,618	3,416
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling) <sup>18</sup>		25	25
		13,643	3,441
Items that are or may be reclassified subsequently to profit or loss <sup>16</sup> :			
Exchange differences on translation of:			
- financial statements of overseas subsidiaries		(1,765)	522
- related borrowings		247	(100)
		(1,518)	422
Cash flow hedge: net movement in hedging reserve		(142)	(132)
		(1,660)	290
<b>Other comprehensive income for the period</b>		11,983	3,731
<b>Total comprehensive income for the period</b>		75,190	56,898
<b>Attributable to:</b>			
Equity shareholders of the company		69,982	51,814
Non-controlling interests		5,208	5,084
<b>Total comprehensive income for the period</b>		75,190	56,898

The notes on pages 26 to 54 form part of this interim financial report.

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

## Consolidated statement of financial position<sup>19, 20, 21, 22, 23</sup> at 30 June 2021 – unaudited<sup>7</sup>

(Expressed in Hong Kong dollars)

	Note	At 30 June 2021 \$'000	At 31 December 2020 \$'000
<b>Non-current assets<sup>25</sup></b>			
Property, plant and equipment <sup>27</sup>	8	218,203	201,321
Investment property <sup>27</sup>	8	75,820	66,690
		<u>294,023</u>	<u>268,011</u>
Intangible assets		16,560	14,400
Goodwill		1,100	1,100
Interest in associates		29,893	29,478
Interest in joint venture		32,430	32,095
Equity securities designated at fair value through other comprehensive income (FVOCI)		4,980	4,950
Financial assets measured at fair value through profit or loss (FVPL)		23,643	21,886
Financial assets measured at amortised cost		23,825	21,596
Derivative financial instruments		987	1,214
Deferred tax assets		3,017	3,495
		<u>430,458</u>	<u>398,225</u>
<b>Current assets<sup>25</sup></b>			
Derivative financial instruments		1,270	2,399
Inventories and other contract costs <sup>23, 24</sup>	9	253,389	218,073
Contract assets <sup>26, 28</sup>		11,299	23,338
Trade and other receivables <sup>28</sup>	10	66,332	59,074
Prepayments		455	190
Trading securities		58,176	58,020
Cash and cash equivalents	11	73,783	105,088
		<u>464,704</u>	<u>466,182</u>
<b>Current liabilities<sup>25</sup></b>			
Trade and other payables	12	147,344	143,207
Contract liabilities <sup>26</sup>		8,585	7,173
Bank loans and overdrafts		37,651	40,314
Lease liabilities <sup>27</sup>		19,583	15,271
Derivative financial instruments		212	200
Other current liabilities		107	108
Current taxation		3,360	7,244
Provisions		10,460	9,410
		<u>227,302</u>	<u>222,927</u>
<b>Net current assets</b>		<u>237,302</u>	<u>243,255</u>
<b>Total assets less current liabilities</b>		<u>667,860</u>	<u>641,480</u>
<b>Non-current liabilities<sup>25</sup></b>			
Interest-bearing borrowings		70,621	72,251
Lease liabilities <sup>27</sup>		53,603	53,202
Derivative financial instruments		78	43
Net defined benefit retirement obligation		3,540	3,210
Deferred tax liabilities		16,655	13,850
Provisions		11,695	11,251
		<u>156,192</u>	<u>153,807</u>
<b>NET ASSETS</b>		<u>511,668</u>	<u>487,673</u>



	Note	At 30 June 2021 \$'000	At 31 December 2020 \$'000
<b>CAPITAL AND RESERVES</b>			
Share capital	13(b)	175,000	175,000
Reserves		259,612	240,825
<b>Total equity attributable to equity shareholders of the company</b>		434,612	415,825
<b>Non-controlling interests</b>		77,056	71,848
<b>TOTAL EQUITY</b>		511,668	487,673

The notes on pages 26 to 54 form part of this interim financial report.

- HKAS 1.10<sup>19</sup> The CO explicitly uses the term “statement of financial position” in different sections, including in:
- section 387, which requires directors of the company to approve and sign the “statement of financial position”; and
  - section 2 of Schedule 4 to the CO, which requires a holding company preparing consolidated financial statements to include a company-level “statement of financial position” in the notes to the financial statements.
- A16(4)(2) Given that these requirements explicitly refer to “statement of financial position”, we believe that the company should use the title “statement of financial position”, and not other titles such as “balance sheet”. This will also be in line with the terminology in Appendix 16, which uses “statement of financial position” in its requirements. So far as interim financial statements are concerned, although they are not statutory financial statements and are therefore not required to follow the CO, it is generally expected that the titles of primary statements used in the interim financial statements are consistent with those used in the annual financial statements. We therefore recommend entities to use the title “statement of financial position” in the interim financial statements as well.
- HKAS 34.10, A16(37), A16(40)(1)<sup>20</sup> As mentioned in footnote 4, MBLRs do not specify the minimum information to be presented in the primary statements. Therefore listed issuers are allowed to condense the interim statement of financial position to an extent consistent with HKAS 34. However, entities are not prohibited from disclosing more than this minimum. For example, in the above statement of financial position, each component of assets, liabilities and equity that was presented in the previous annual statement of financial position has been included for ease of comparison with that statement of financial position.
- Where the interim financial report is prepared using new policies or an entity entered into transactions which have resulted in new types of, or significant, balances at the end of the interim period, management should also consider how they would reflect these in a statement of financial position for a full set of financial statements and make adjustments to the interim statement of financial position accordingly.
- HKAS 1.10(f), HKAS 1.40A<sup>21</sup> HKAS 1 requires entities to include a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in the annual financial statements, or when it reclassifies items in its annual financial statements and this retrospective application, restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the preceding period, i.e. a complete set of annual financial statements will include three sets of statement of financial position information in such cases. However, as noted in the Basis for Conclusions to HKAS 1, such a requirement regarding comparative information is not extended to interim financial reports prepared in accordance with HKAS 34.
- HKAS 1.BC33, HKAS 34.20

CP	<p><sup>22</sup> Each item on the face of statement of financial position would generally be cross-referenced to any related information in the notes.</p>
HKAS 1.29-30A, 55, 77	<p><sup>23</sup> 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):</p> <ul style="list-style-type: none"><li>• refund liability;</li><li>• right to recover a returned good;</li><li>• costs to obtain / fulfil a contract (contract costs);</li><li>• liability arising from repurchase agreement; and</li><li>• asset relating to the consideration paid to the customer.</li></ul> <p>In this illustration, it is assumed that HK Listco has capitalised contract costs and has aggregated these costs with inventories to a single line item in the statement of financial position in its annual financial statements because of their similarities in nature (in both cases the assets represent costs which are expected to be recognised in future periods in the statement of profit and loss as expenses, as and when revenue from the sale of the related goods or services is recognised). Accordingly, this interim report has been presented in a manner consistent with this approach. On the other hand, it is assumed that HK Listco does not have any refund liabilities, return assets, liabilities arising from repurchase agreements or assets relating to consideration paid to the customers as these are expected to be less common.</p>
HKAS 1.29, 60, 66	<p><sup>24</sup> 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).</p> <p>In this illustration HK Listco has presented the capitalised costs as current assets as HK Listco's capitalised costs relate to the sale of specific properties to be recognised during HK Listco's normal operating cycle and satisfy the criteria set out in HKAS 1.66 for classification as a current asset. As mentioned in footnote 23, HK Listco has aggregated the capitalised contract costs with inventories to a single line item in the statement of financial position in its annual financial statements. Therefore, this interim report has been presented in a manner consistent with this approach.</p> <p>We would expect that in most cases the classification as a current asset will be appropriate, as in most cases the amounts will be charged to profit or loss during the entity's normal operating cycle. An exception to this approach may be when the amortisation period for the contract costs is an extended period which reflects the timing of goods or services to be transferred under a specific anticipated contract (for example services to be provided over some extended future period after renewal of an existing contract). In those cases, the contract costs may be closer in nature to intangible assets for customer relationships recognised in a business combination and therefore presentation as a non-current asset may be more appropriate, if the amortisation period is expected to extend beyond both 12 months and the entity's normal operating cycle. The classification as current or non-current may therefore in some cases be a judgment call that depends on the entity's facts and circumstances.</p>
HKAS 1.60 & 64	<p><sup>25</sup> Under HKAS 1, presenting assets and liabilities on a liquidity basis is only acceptable when such a presentation provides information that is reliable and more relevant than a current / non-current presentation. A mixed presentation is acceptable when an entity has diverse operations.</p>
HKFRS 15.105, 109 HKAS 1.60, 66, 69	<p><sup>26</sup> HKFRS 15 does not specify whether entities are required to present their contract assets and contract liabilities as separate line items or how to classify them as current or non-current in the statement of financial position. Entities should therefore apply general principles in HKAS 1 for presenting and classifying contract assets and contract liabilities. Also, while HKFRS 15 uses the terms "contract assets" and "contract liabilities", entities are not prohibited from using alternative terms to describe contract assets and contract liabilities in their statements of financial position, provided that the entities give sufficient information to users to distinguish these amounts from receivables and payables, which are different in nature (see footnote 28 for distinction between contract assets and receivables).</p> <p>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.</p> <p>It is assumed that HK Listco has used the terms "contract assets" and "contract liabilities" in its annual financial statements. Therefore, these terms are used in this interim report for consistent presentation.</p>

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- HKFRS 16.47 <sup>27</sup> 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 8).
- HKFRS 16.48 However, the above accounting policy 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.
- HKFRS 15.107-108 <sup>28</sup> HKFRS 15 makes a distinction between contract assets and receivables based on whether the right to the consideration for the performance completed up to date is unconditional or not. If the right to the consideration is unconditional, then this right should be presented as a receivable. A right to consideration is unconditional if only passage of time is required before payment of that consideration is due. This principle is illustrated in Examples 38 to 40 found in paragraphs IE197 to IE208 in the Illustrative Examples accompanying HKFRS 15. If the right to the consideration is conditional on something other than the passage of time e.g. an entity's future performance, then such right should be presented as a contract asset.
- HKAS 34.8(c) <sup>29</sup> Both the MBLRs and HKAS 34 are not explicit as to the extent of disclosure that should be made in the statement of changes in equity presented in an interim financial report. In particular, they are not explicit as to whether a reconciliation of all changes of each component of equity is required. In this illustration, the same level of detail is shown as that which is shown in the annual financial statements, for ease of comparison.
- HKAS 34.28 Where the interim financial report is prepared using new policies or the entity entered into new or significant transactions during the interim period, management should also consider how they would reflect these in the statement of changes in equity in a full set of financial statements and make adjustments to the interim statement of changes in equity accordingly.
- HKAS 1.54(q) & 106(a) <sup>30</sup> As non-controlling interests in the equity of a subsidiary are presented as part of equity and not as a deduction from net assets, they should be included in the statement of changes in equity as one of the components of total equity.
- CP <sup>31</sup> Each item on the face of the statement of changes in equity would generally be cross-referenced to any related information in the notes.
- HKAS 34.20(c) <sup>32</sup> HKAS 34 requires the interim financial report to include a statement of changes in equity for the current financial year-to-date, with a comparative statement for the comparable year-to-date period of the immediately preceding financial year. For example, in an interim financial report for the six months ended 30 June 2021, the comparatives in the statement of changes in equity should, at a minimum, cover the six month period ended 30 June 2020. However, we recommend that the reconciliation of the changes in each component of equity (whether it is provided in the statement of changes in equity or in the notes) should provide additional information about the movements in the second half of the comparative interim period, to help readers link the comparative changes in equity information, which is required for the comparative interim period (i.e. here the six months ended 30 June 2020) to the comparative statement of financial position, which is prepared as of the end of the previous financial year (i.e. here as at 31 December 2020). This is particularly useful where there have been changes in accounting policies which have resulted in adjustments.

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

## Consolidated statement of changes in equity<sup>29, 30, 31</sup> for the six months ended 30 June 2021 - unaudited<sup>7</sup>

(Expressed in Hong Kong dollars)

Note	Attributable to equity shareholders of the company								Non-controlling interests	Total equity
	Share capital	Capital reserve	Exchange reserves	Property revaluation reserve	Hedging reserve	Fair value reserve (non-recycling) <sup>18</sup>	Retained profits	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2020</b>	175,000	134	1,020	2,251	2,823	85	201,971	383,284	61,681	444,965
<b>Changes in equity for the six months ended 30 June 2020:</b>										
Profit for the period	-	-	-	-	-	-	48,083	48,083	5,084	53,167
Other comprehensive income	-	-	422	3,416	(132)	25	-	3,731	-	3,731
Total comprehensive income	-	-	422	3,416	(132)	25	48,083	51,814	5,084	56,898
Amounts transferred from hedging reserve <sup>16</sup> to initial carrying amount of hedged items	-	-	-	-	(90)	-	-	(90)	-	(90)
Dividends approved in respect of the previous years	13(a)	-	-	-	-	-	(45,000)	(45,000)	-	(45,000)
<b>Balance at 30 June 2020 and 1 July 2020</b>	175,000	134	1,442	5,667	2,601	110	205,054	390,008	66,765	456,773
<b>Changes in equity for the six months ended 31 December 2020<sup>32</sup>:</b>										
Profit for the period	-	-	-	-	-	-	48,098	48,098	5,083	53,181
Other comprehensive income	-	-	406	2,896	(132)	25	(10)	3,185	-	3,185
Total comprehensive income	-	-	406	2,896	(132)	25	48,088	51,283	5,083	56,366
Amounts transferred from hedging reserve <sup>16</sup> to initial carrying amount of hedged items	-	-	-	-	(91)	-	-	(91)	-	(91)
Equity settled share-based transactions	13(d)	-	1,625	-	-	-	-	1,625	-	1,625
Dividends declared in respect of the current year	13(a)	-	-	-	-	-	(27,000)	(27,000)	-	(27,000)
<b>Balance at 31 December 2020</b>	175,000	1,759	1,848	8,563	2,378	135	226,142	415,825	71,848	487,673

		Attributable to equity shareholders of the company									
	Note	Share capital	Capital reserve	Exchange reserves	Property revaluation reserve	Hedging reserve	Fair value reserve (non-recycling) <sup>18</sup>	Retained profits	Total	Non-controlling interests	Total equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 31 December 2020</b>		175,000	1,759	1,848	8,563	2,378	135	226,142	415,825	71,848	487,673
Impact on initial application of amendment to HKFRS 16 on Covid-19-related rent concessions	2	-	-	-	-	-	-	175	175	-	175
<b>Balance at 1 January 2021<sup>32</sup></b>		175,000	1,759	1,848	8,563	2,378	135	226,317	416,000	71,848	487,848
<b>Changes in equity for the six months ended 30 June 2021:</b>											
Profit for the period		-	-	-	-	-	-	57,999	57,999	5,208	63,207
Other comprehensive income		-	-	(1,518)	13,618	(142)	25	-	11,983	-	11,983
Total comprehensive income		-	-	(1,518)	13,618	(142)	25	57,999	69,982	5,208	75,190
Amounts transferred from hedging reserve to initial carrying amount of hedged items		-	-	-	-	(98)	-	-	(98)	-	(98)
Dividends approved in respect of the previous year	13(a)	-	-	-	-	-	-	(49,500)	(49,500)	-	(49,500)
Purchase of own shares	13(c)	-	-	-	-	-	-	(3,330)	(3,330)	-	(3,330)
Equity settled share-based transactions	13(d)	-	1,558	-	-	-	-	-	1,558	-	1,558
<b>Balance at 30 June 2021</b>		175,000	3,317	330	22,181	2,138	160	231,486	434,612	77,056	511,668

The notes on pages 26 to 54 form part of this interim financial report.

HKAS 34.8(d),  
20(d),

## Condensed consolidated cash flow statement<sup>33, 35</sup> for the six months ended 30 June 2021 – unaudited<sup>7</sup>

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2021 \$'000	2020 \$'000
<b>Operating activities</b>			
Cash generated from operations <sup>34</sup>		69,645	56,414
Tax paid		(14,927)	(12,650)
<b>Net cash generated from operating activities</b>		54,718	43,764
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment <sup>33, 34</sup>		(6,816)	(6,353)
Acquisition of subsidiary, net of cash acquired <sup>33</sup>	2	(1,955)	-
Other cash flows arising from investing activities		(3,069)	(5,567)
<b>Net cash used in investing activities</b>		(11,840)	(11,920)
<b>Financing activities</b>			
Dividends paid to equity shareholders of the company <sup>33</sup>		(49,500)	(45,000)
Other cash flows arising from financing activities <sup>34</sup>		(21,638)	(15,248)
<b>Net cash used in financing activities</b>		(71,138)	(60,248)
<b>Net decrease in cash and cash equivalents</b>		(28,260)	(28,404)
<b>Cash and cash equivalents at 1 January</b>		102,299	122,650
<b>Effect of foreign exchanges rates changes</b>		(1,624)	763
<b>Cash and cash equivalents at 30 June</b>	11	72,415	95,009

The notes on pages 26 to 54 form part of this interim financial report.

HKAS 34.10

<sup>33</sup> As mentioned in footnote 4, MBLRs do not specify the minimum information to be presented in the primary statements. Listed issuers are allowed to condense the interim cash flow statements to an extent consistent with HKAS 34. HKAS 34.10 requires that a condensed cash flow statement should include, at a minimum, each of the headings and subtotals that were included in the cash flow statement presented in an entity's most recent annual financial statements. HKAS 34.10 also goes further, by stating that "additional line items should be included if their omission would make the condensed interim financial statements misleading".

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

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

HKFRS  
16.50, HKAS  
7.16(a)

<sup>34</sup> Most lease-related cash payments 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. 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 paragraph 5-6 of HKFRS 16: these payments are 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, in our experience such cash outflows are normally classified 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.

An entity should follow the general principles to determine whether additional line items should be included in the cash flow statement (see footnote 33).

CP

<sup>35</sup> Each item on the face of the cash flow statement would generally be cross-referenced to any related information in the notes.

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

# Notes to the unaudited interim financial report<sup>36,37</sup>

(Expressed in Hong Kong dollars unless otherwise indicated)<sup>38</sup>

## 1 BASIS OF PREPARATION

CP

HKAS 34.19  
A16(38)

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA)<sup>39</sup>. It was authorised for issue on 25 August 2021<sup>40</sup>.

HKAS 34.5-25<sup>36</sup> HKAS 34 presumes that the user of an entity's condensed interim financial report will also have access to its most recent annual financial statements. Therefore, in general the level of detail of disclosure in condensed interim financial reports is expected to be less than that in the annual financial statements, and it is not necessary for an interim financial report to duplicate information previously reported in the annual financial statements or to provide relatively insignificant updates to the information previously reported. In this regard, paragraphs 8 to 25 of HKAS 34 provide guidance on the minimum components of an interim financial report and selected explanatory notes.

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

HKAS 34.16A<sup>37</sup> If an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement (such as management commentary or risk report), then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. Otherwise, the interim financial report is incomplete.

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

CP

<sup>38</sup> Generally, interim financial reports should be prepared using a consistent level of precision. That is, if the primary statements are presented in, for example, round thousands, then any note disclosures which support the primary statements, such as further analyses of income statement or balance sheet captions, would also generally be presented in round thousand amounts, so as to exactly reconcile to the amounts disclosed in the primary statements. However, occasionally it may be appropriate to present specific items of information in the interim financial report using different levels of precision from that used generally. An example of such disclosure is in note 16 where HK Listco discloses the estimated financial effect of a contingent liability in \$millions due to the uncertainties involved in estimating the outcome. In such case, the level of precision used should be clearly disclosed and care should be taken to ensure that material information is not omitted.

HKAS 34.19,  
7 & 9<sup>39</sup> If the interim financial report of an entity is in compliance with HKAS 34, that fact should be disclosed.

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

CP

<sup>40</sup> As with annual financial statements, it is important for users to know when an interim financial report was authorised for issue, as the interim financial report does not reflect events after this date. Accordingly, although not mandatory, we recommend entities disclose such information.



HKAS 34.16A(a) A16(38)	<p>The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of any changes in accounting policies are set out in note 2.</p>
CP	<p>The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.</p>
CP	<p>This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.<sup>39</sup></p>
A16(43) CP	<p>The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, <i>Review of interim financial information performed by the independent auditor of the entity</i>, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 55.</p>
S436	<p>The financial information relating to the financial year ended 31 December 2020 that is included in the interim financial report as comparative information does not constitute the company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622)<sup>41</sup> is as follows:</p> <p>The company has delivered the financial statements for the year ended 31 December 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.</p> <p>The company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.</p>

S436

- <sup>41</sup> Section 436 of the CO requires specific disclosures to be made when a Hong Kong incorporated company circulates, publishes or issues “non-statutory accounts”, or otherwise makes them available for public inspection. “Non-statutory accounts” has a broad meaning and refers to a company publishing any statement of financial position or statement of comprehensive income relating to, or purporting to deal with, a financial year of the company (otherwise than in the statutory financial statements). Interim financial reports prepared in accordance with HKAS 34 fall within the scope of these requirements because the comparative statement of financial position included in the interim financial report is prepared as of a financial year end (i.e. as at the end of the previous financial year).

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

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

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

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

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

A16(37):  
Note 37.2

- <sup>42</sup> Note 37.2 to paragraph 37 of Appendix 16 to the MBLRs requires a listed issuer to apply the same accounting policies in its interim financial report as are applied in its most recent annual financial statements except where a change in accounting policy is required by an accounting standard which came into effect during the interim period. A literal interpretation of this requirement would appear to prevent a listed issuer from voluntarily changing its accounting policy during an interim period. However, it is our understanding that a listed issuer may voluntarily change its accounting policies as long as the policy change is in accordance with HKAS 8, *Accounting policies, changes in accounting estimates and errors*, and the change is to be reflected in the entity’s next annual financial statements.

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

- <sup>43</sup> In accordance with paragraph 16A(a) of HKAS 34, and notes 37.2 and 38.1 to paragraphs 37-38 of Appendix 16 to the MBLRs, when entities change their accounting policies and methods of computation for their interim financial report, as compared to the most recent annual financial statements, they should describe the reason for the change and the nature and effect of such changes. Note 38.1 to paragraph 38 of Appendix 16 to the MBLRs also requires that where it is not possible to quantify the effects of the change or the effects are not significant, this should be stated.

In our view, when making these disclosures consideration should be given to the requirements found in paragraphs 28-29 of HKAS 8, which set out a list of specific information to be disclosed in a complete set of financial statements when an entity changes its accounting policies and any specific transitional requirements of any new or amended standards being adopted. However, HKAS 34 leaves management some discretion to decide the extent to which the disclosures in the condensed interim financial report should satisfy all of the requirements applicable to a complete set of financial statements and therefore a variety of methods and styles of presentation may be acceptable provided they comply with the MBLRs and HKAS 34. In addition, as confirmed in paragraph BC33 of HKAS 1, there is no specific requirement to include in the interim financial report additional statement of financial position information as at the start of the comparative period when comparatives have been restated (see footnote 56 of the December 2020 edition of Illustrative annual financial statements under Hong Kong Financial Reporting Standards for details of the requirements applicable to the annual financial statements in this regard).

## 2 CHANGES IN ACCOUNTING POLICIES <sup>42, 43, 44, 45</sup>

The group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

- Amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

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:

HKFRS 9.7.2.21,  
22 & 26

- <sup>44</sup> Until the IASB completes its project on accounting for dynamic risk management and the resulting pronouncements are adopted by the HKICPA as part 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 this illustration, 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 December 2018 edition of the Illustrative annual financial statements under Hong Kong Financial Reporting Standards.

- <sup>45</sup> In this interim financial report, a range of changes, which have varying impacts on the group's financial statements and the interim financial report, are described. However, there may be other changes in accounting policies which an entity needs to disclose but which have not been illustrated here and/or the impact of the changes highlighted may vary from one entity to another, depending on their facts and circumstances. Care should be taken to tailor the disclosures to suit the entity's circumstances.

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

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

"The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the group:

- Amendments to HKFRS 16, *Covid-19-related rent concessions*
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*
- ...

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 in this interim financial report. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period."

*Amendment to HKFRS 16, Covid-19-related rent concessions beyond 30 June 2021 (2021 amendment)<sup>46</sup>*

The group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The group has early adopted the 2021 amendment in this financial year. With the extended time limit, certain rent concessions that were previously ineligible for the practical expedient because of the original time limit, become eligible. Accordingly, these rent concessions, which were previously accounted for as lease modifications, are now accounted for as negative variable lease payments, and are recognised in profit or loss in the period in which the event or condition that triggers those payments occurred (see note 8(a)).

In accordance with the transitional requirements, the 2021 amendment has been applied retrospectively, with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained profits at 1 January 2021.

The following table summarises the impacts on the group's consolidated statement of financial position:

	Carrying amount at 31 December 2020 \$'000	Effect of adoption of amendment to HKFRS 16 \$'000	Carrying amount at 1 January 2021 \$'000
<b>Line items in the consolidated statement of financial position impacted by the application of amendment to HKFRS 16:</b>			
Property, plant and equipment	201,321	173	201,494
Total non-current assets	397,011	173	397,184
Lease liabilities (current)	15,271	(2)	15,269
Current liabilities	222,970	(2)	222,968
Net current assets	244,426	(2)	244,424
Total assets less current liabilities	641,437	175	641,612
Net assets / Total equity	487,673	175	487,848
Retained profits	226,142	175	226,317

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, *Interest rate benchmark reform — phase 2*

The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates (“IBOR reform”). [The amendments do not have an impact on this interim financial report as the group does not have contracts that are indexed to benchmark interest rates which are subject to the IBOR reform.] *[Or describe the effect if the entity has such contracts in place and provides additional disclosures as required by the amendments accordingly.]*

HKFRS 16.46A  
& 46B

<sup>46</sup> Issued in June 2020, the optional practical expedient originally introduced in the amendment to HKFRS 16, *Covid-19-related rent concessions* (“the 2020 amendment”), is available to lessees and applies only to rent concessions occurred as a direct consequence of the COVID-19 pandemic if, and only if, all of the following conditions are met:

- (a) 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;
- (b) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) there is no substantive change to other terms and conditions of the lease.

HKFRS 16.C1C,  
C20BA-C20BC

In April 2021, the HKICPA issued an amendment to HKFRS 16, *Covid-19-related rent concessions beyond 30 June 2021* (“the 2021 amendment”) to extend the above-mentioned time limit from 30 June 2021 to 30 June 2022. Lessees that had elected to apply the practical expedient introduced in the 2020 amendment in their previous financial statements are required to apply the extension to eligible contracts with similar characteristics and in similar circumstances.

The 2021 amendment is effective for annual periods beginning on or after 1 April 2021 with earlier application permitted. Changes arising from applying the amendment are accounted for retrospectively, with the cumulative effect of initial application recognised as an adjustment to the opening balance of equity at the beginning of the annual reporting period. In the financial period in which a lessee initially applies the 2021 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, the adjustment for basic and diluted earnings per share for the current period and each prior period presented.

In this illustration, HK Listco was granted a rent concession during 2020 that was previously ineligible for applying the practical expedient under the 2020 amendment but becomes eligible under the 2021 amendment. Therefore, upon the initial application of the 2021 amendment, such rent concession has been accounted for as a negative variable lease payment rather than as a lease modification. In accordance with the transitional provisions, the comparative amounts have not been restated, rather, the cumulative effect of initially applying the 2021 amendment was recognised as an adjustment to the opening balance of equity at 1 January 2021.

For other entities, the initial application of the 2021 amendment may have no impact on the entity’s opening balance of equity. In these alternative cases, the following wording may be used:

*“The group previously applied the practical expedient in HKFRS 16 such that as lessee it was not required to assess whether rent concessions occurring as a direct consequence of the COVID-19 pandemic were lease modifications, if the eligibility conditions are met. One of these conditions requires the reduction in lease payments affect only payments originally due on or before a specified time limit. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.*

*The group has early adopted the 2021 amendment in this financial year. There is no impact on the opening balance of equity at 1 January 2021.”*

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

### 3 REVENUE AND SEGMENT REPORTING<sup>47</sup>

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

#### (a) Disaggregation of revenue<sup>48</sup>

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

	Six months ended 30 June	
	2021	2020
	\$'000	\$'000
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregated by major products or service lines		
- Sales of electronic products	472,888	420,219
- Sales of completed properties	52,597	60,383
- Revenue from construction contracts	12,696	8,913
	<u>538,181</u>	<u>489,515</u>
<b>Revenue from other sources</b>		
- Gross rentals from investment properties	4,267	3,105
	<u>542,448</u>	<u>492,620</u>
Disaggregated by geographical location of customers		
- Hong Kong (place of domicile)	<u>383,542</u>	<u>352,253</u>
- Mainland China	875	610
- United States	64,764	50,300
- Singapore	21,734	11,087
- Malaysia	16,296	7,865
- Germany	17,634	22,725
- France	9,387	14,615
- Other countries	28,216	33,165
	<u>158,906</u>	<u>140,367</u>
	<u>542,448</u>	<u>492,620</u>

The geographical analysis above includes property rental income from external customers in Hong Kong and in Mainland China for the six months ended 30 June 2021 of \$3,897,000 (six months ended 30 June 2020: \$2,797,000) and \$370,000 (six months ended 30 June 2020: \$308,000) respectively.

HKAS 34.16A(l)

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

HKAS  
34.16A(g),(l)

<sup>47</sup> HKFRS 8 applies primarily to entities whose debt or equity securities are listed or quoted in a public market. Entities that fall outside the scope of HKFRS 8 may provide information about segments on a voluntary basis. However, if this information does not comply fully with HKFRS 8, then, as per paragraph 3 of HKFRS 8, this information should not be described as "segment information". Further details of the requirements of HKFRS 8 can be found in footnotes 103, 105, 108, 109 and 112-123 of the December 2020 edition of Illustrative annual financial statements under Hong Kong Financial Reporting Standards.

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

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

Apart from the above, HKAS 34 also requires an entity to disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue disclosed in accordance with paragraph 114 of HKFRS 15 and the revenue information disclosed for each reportable segment (see footnote 48 for further details).

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

<sup>48</sup> HKAS 34 requires the interim financial report to include the same disaggregated revenue information that is required in the annual financial statements by HKFRS 15. This means that in both the annual financial statements and in the interim financial report an entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors, and shall provide sufficient information to enable users of the financial statements to understand the relationship between that disclosure of disaggregated revenue and the revenue information disclosed for each reportable segment (if the entity applies HKFRS 8 *Operating segments*).

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

In this illustration, HK Listco has disclosed revenue analysed by major products and service lines and geographical location of customers in note 3(a) "Disaggregated of revenue section" and 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 in the segment disclosure table in note 3(b). Same disaggregated revenue information could be found in its annual financial statements. Other approaches may also be acceptable.



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

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the group's reportable segments as provided to the group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	For the six months ended	Electronics – Hong Kong		Electronics – South East Asia		Electronics – Rest of the world		Property development		Construction contracts		Property leasing		Total	
		2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000	2021 \$'000	2020 \$'000
HKAS 34.16A(i)	<b>Disaggregated by timing of revenue recognition<sup>48</sup></b>														
	Point in time	265,540	224,712	59,550	47,695	100,000	100,806	52,597	60,383	-	-	-	-	477,687	433,596
	Over time	39,678	39,476	8,120	7,530	-	-	-	-	12,696	8,913	4,267	3,105	64,761	59,024
HKAS 34.16A(g)(i)	<b>Revenue from external customers</b>	<b>305,218</b>	<b>264,188</b>	<b>67,670</b>	<b>55,225</b>	<b>100,000</b>	<b>100,806</b>	<b>52,597</b>	<b>60,383</b>	<b>12,696</b>	<b>8,913</b>	<b>4,267</b>	<b>3,105</b>	<b>542,448</b>	<b>492,620</b>
HKAS 34.16A(g)(ii)	Inter-segment revenue	52,055	51,953	625	464	-	-	-	-	-	-	-	-	52,680	52,417
	<b>Reportable segment revenue</b>	<b>357,273</b>	<b>316,141</b>	<b>68,295</b>	<b>55,689</b>	<b>100,000</b>	<b>100,806</b>	<b>52,597</b>	<b>60,383</b>	<b>12,696</b>	<b>8,913</b>	<b>4,267</b>	<b>3,105</b>	<b>595,128</b>	<b>545,037</b>
HKAS 34.16A(g)(iii)	<b>Reportable segment profit (adjusted EBITDA)</b>	<b>54,622</b>	<b>48,806</b>	<b>10,448</b>	<b>9,424</b>	<b>14,628</b>	<b>13,193</b>	<b>19,997</b>	<b>18,965</b>	<b>2,491</b>	<b>1,581</b>	<b>12,710</b>	<b>5,847</b>	<b>114,896</b>	<b>97,816</b>
	Impairment of plant and machinery	-	-	-	-	-	-	(1,200)	-	-	-	-	-	(1,200)	-
	As at 30 June / 31 December														
HKAS 34.16A(g)(iv)	<b>Reportable segment assets</b>	<b>364,480</b>	<b>354,245</b>	<b>30,177</b>	<b>26,900</b>	<b>44,292</b>	<b>41,050</b>	<b>143,128</b>	<b>140,527</b>	<b>85,700</b>	<b>88,540</b>	<b>78,057</b>	<b>69,036</b>	<b>745,834</b>	<b>720,298</b>
HKAS 34.16A(g)(iv)	<b>Reportable segment liabilities</b>	<b>190,520</b>	<b>187,276</b>	<b>46,848</b>	<b>44,617</b>	<b>30,670</b>	<b>29,490</b>	<b>64,261</b>	<b>65,652</b>	<b>570</b>	<b>1,067</b>	<b>10,160</b>	<b>10,164</b>	<b>343,029</b>	<b>338,266</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.

**(c) Reconciliations of reportable segment profit or loss**

	Six months ended 30 June	
	2021 \$'000	2020 \$'000
Reportable segment profit	114,896	97,816
Elimination of inter-segment profits	(13,170)	(13,103)
Reportable segment profit derived from group's external customers and joint venture	101,726	84,713
Share of profits less losses of associates	2,250	1,322
Other income	8,404	7,081
Depreciation and amortisation	(16,937)	(14,444)
Finance costs	(10,366)	(7,936)
Impairment losses on non-current assets	(1,200)	-
Unallocated head office and corporate expenses	(7,068)	(6,901)
Consolidated profit before taxation	76,809	63,835

HKAS  
34.16A(b)

**4 SEASONALITY OF OPERATIONS<sup>49</sup>**

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

HKAS 34.21

For the twelve months ended 30 June 2020, the Electronics division reported revenue of \$998,204,000 (twelve months ended 30 June 2020: \$852,306,000), and gross profit of \$252,311,000 (twelve months ended 30 June 2020: \$214,459,000).

HKAS  
34.16A(b) &  
21

<sup>49</sup> Paragraph 16A(b) of HKAS 34 requires an entity to explain any seasonality or cyclicity of its interim operations.

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

HKAS 34.15

## 5 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2021	2020
		\$'000	\$'000
<b>(a) Finance costs</b>			
Interest on bank loans and other borrowings		9,130	7,138
Interest on lease liabilities		2,437	1,813
Dividends on redeemable preference shares (note 13(a))		100	100
Other interest expense		636	440
Total interest expense on financial liabilities not at fair value through profit or loss		12,303	9,491
Interest accrued on advance payments from customers		443	233
Less: interest expense capitalised into properties under development		(2,331)	(1,748)
		10,415	7,976
Interest-rate swap: cash flow hedges, reclassified from equity		(49)	(40)
		10,366	7,936
		Six months ended 30 June	
		2021	2020
		\$'000	\$'000
<b>(b) Other items</b>			
Amortisation		1,508	918
Depreciation charge			
- owned property, plant and equipment		5,520	5,467
- right-of-use assets		9,909	8,059
HKAS 34.15B(b) Impairment losses on plant and machinery (note 8(c))		1,200	-
HKAS 34.15B(a) Inventory write-down and losses net of reversals (note 9)		6,397	5,287
Dividend and interest income		(1,092)	(1,076)
Net gain on trading securities		(4,296)	(2,140)
Net gain on investments not held for trading		(653)	-

HKAS 34.15 **6 INCOME TAX**

	Six months ended 30 June	
	2021	2020
	\$'000	\$'000
Current tax - Hong Kong Profits Tax	7,261	7,299
Current tax - Overseas	4,076	3,452
Deferred taxation	2,265	(83)
	<u>13,602</u>	<u>10,668</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2020: 16.5%) to the six months ended 30 June 2021, except for one subsidiary of the group which is a qualifying corporation under the two-tiered Profits Tax rate regime<sup>50</sup>.

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 2020.

Taxation for overseas subsidiaries is similarly calculated using the estimated annual effective rates of taxation that are expected to be applicable in the relevant countries.

<sup>50</sup> In March 2019, Inland Revenue (Amendment) (No. 3) Ordinance 2019 (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 2019-2020. 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.

## 7 EARNINGS PER SHARE

### (a) Basic earnings per share

CP

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of \$57,999,000 (six months ended 30 June 2020: \$48,083,000) and the weighted average of 99,724,000 ordinary shares (2020: 100,000,000 shares, after adjusting for the bonus issue in 2021)<sup>51</sup> in issue during the interim period.

### (b) Diluted earnings per share

CP

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of \$58,437,000 (six months ended 30 June 2020: \$48,345,000) and the weighted average number of ordinary shares of 100,510,000 (2020: 100,500,000 shares, after adjusting for the bonus issue in 2021)<sup>51</sup>).

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HKAS 33.26-27,<sup>51</sup> 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 rights issue 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).

## 8 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

### HKAS 34.15 (a) Right-of-use assets

During the six months ended 30 June 2021, the group entered into a number of lease agreements for use of warehouses, retail stores and machinery, and therefore recognised the additions to right-of-use assets of \$11,865,000.

The leases of retail stores 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 the six months ended 30 June 2021, 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 interim reporting period is summarised below:

HKAS  
34.16A(c)

	Six months ended 30 June 2021			
	Fixed payments \$'000	Variable payments \$'000	COVID-19 rent concessions \$'000	Total payments \$'000
Retail stores – Hong Kong	1,200	780	(540)	1,440
	Six months ended 30 June 2020			
	Fixed payments \$'000	Variable payments \$'000	COVID-19 rent concessions \$'000	Total payments \$'000
Retail stores – Hong Kong	1,100	880	(380)	1,600

HKFRS 16.60A

As disclosed in note 2, the group has early adopted the Amendment to HKFRS 16, *Leases, Covid-19-related rent concessions beyond 30 June 2021*, and applies the practical expedient to all eligible rent concessions received by the group during the period<sup>52</sup>.

HKFRS 16.60A <sup>52</sup> 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 applied 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 is disclosed in note 8(a). 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).

HKAS  
34.15B(d)

**(b) Acquisitions and disposals of owned assets**

During the six months ended 30 June 2021, the group acquired items of plant and machinery with a cost of \$6,816,000 (six months ended 30 June 2020: \$6,353,000). Items of plant and machinery with a net book value of \$416,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: \$nil), resulting in a loss on disposal of \$42,000 (six months ended 30 June 2020: \$nil).

HKAS  
34.15B(b)

**(c) Impairment losses**

During the six months ended 30 June 2021, a number of machines in the property development division were physically damaged. The group assessed the recoverable amounts of those machines and as a result the carrying amount of the machines was written down to their recoverable amount of \$6,230,000<sup>53</sup>. An impairment loss of \$1,200,000 was recognised in "Cost of sales"<sup>54</sup>. 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<sup>55</sup>. The fair value on which the recoverable amount is based is categorised as a Level 3 measurement.

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HKAS 34.15B <sup>53</sup> Under paragraph 15B of HKAS 34, recognition or reversal of impairment loss on financial assets, property, plant and equipment, intangible assets, assets arising from contracts with customers and other assets is one of the events for which disclosures would be required if it is significant. However, the content and level of details of such disclosures are not specified in HKAS 34. Entities therefore need to exercise judgement to determine the extent of disclosures in HKAS 36 to be given in the condensed interim financial reports. When exercising judgement, entities should bear in mind the disclosure objective of HKAS 34, which is to explain events and transactions that are significant to an understanding of the changes in financial position and performance since the end of the last annual reporting period.

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

HKAS  
36.126(a) <sup>54</sup> In this illustration, HK Listco presents its expenses by function (see footnote 8) and has therefore allocated the impairment loss of non-financial assets to the appropriate function. In our view, only expenses that cannot be allocated to a specific function are classified as "other operating expenses" (e.g. impairment of goodwill).

HKAS 34.15 (d) **Valuation**<sup>55</sup>

The valuations of investment properties and land and buildings held for own use carried at fair value were updated at 30 June 2021 by the group's independent valuer using the same valuation techniques as were used by this valuer when carrying out the December 2020 valuations.

As a result of the update, a net gain of \$9,130,000 (2020: \$3,260,000), and deferred tax thereon of \$1,479,000 (2020: \$460,000), has been recognised in profit or loss for the period in respect of investment properties. The before-tax and net-of-tax amounts of \$14,770,000 and \$13,618,000 (2020: \$3,874,000 and \$3,416,000) respectively have been recognised in other comprehensive income for the period in respect of land and buildings held for own use.

## 9 INVENTORIES AND OTHER CONTRACT COSTS

HKAS  
34.15B(a)

During six months ended 30 June 2021, \$1,500,000 (2020: \$nil) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period, being the amount of reversal of a write-down of inventories to the estimated net realisable value. This reversal arose due to an increase in the estimated net realisable value of certain electronic goods as a result of a change in consumer preferences.

HKAS 34.C7

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<sup>55</sup> Paragraph 41 of HKAS 34 accepts that the preparation of an interim financial report will require a greater use of estimation methods than annual financial reports and Appendix C to HKAS 34 gives relying on professionally qualified valuers only at the annual reporting date, rather than at each interim date, as an example of this. In this respect the following should be noted:

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

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



## 10 TRADE AND OTHER RECEIVABLES

A16(4)(2)(a)

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows<sup>56</sup>:

	At 30 June 2021 \$'000	At 31 December 2020 \$'000
Within 1 month	51,280	44,034
1 to 2 months	9,616	9,557
2 to 3 months	1,923	1,911
Over 3 months	1,282	1,274
Trade debtors and bills receivable, net of loss allowance	64,101	56,776
Other debtors	500	546
Financial assets measured at amortised cost	64,601	57,322
Insurance reimbursement	1,731	1,752
	66,332	59,074

Trade debtors and bills receivable 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.

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

<sup>56</sup> For Main Board listed issuers, the MBLRs require disclosure of the group's ageing analysis of accounts receivable and payable in both the annual and the interim financial statements. In accordance with Note 4.2 to paragraph 4 to Appendix 16, the ageing analysis should normally be presented on the basis of the date of the relevant invoice or demand note and categorised into time-bands based on analysis used by an issuer's financial position. The basis on which the ageing analysis is presented should be disclosed.

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

## 11 CASH AND CASH EQUIVALENTS

	At 30 June 2021 \$'000	At 31 December 2020 \$'000
Deposits with banks and other financial institutions	45,760	53,059
Cash at bank and in hand	28,023	52,029
Cash and cash equivalents in the statement of financial position	73,783	105,088
Bank overdrafts	(1,368)	(2,789)
Cash and cash equivalents in the cash flow statement	72,415	102,299

## 12 TRADE AND OTHER PAYABLES

A16(4)(2)(b)

As of the end of the reporting period, the ageing analysis of trade creditors and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:<sup>56</sup>

	At 30 June 2021 \$'000	At 31 December 2020 \$'000
Within 1 month	91,024	87,435
1 to 3 months	46,584	45,962
Over 3 months but within 6 months	1,370	1,106
Total creditors and bills payable	138,978	134,503
Other creditors and accrued charges	366	4
Amounts due to ultimate holding company and fellow subsidiaries	8,000	8,700
Financial liabilities measured at amortised cost	147,344	143,207

## 13 CAPITAL, RESERVES AND DIVIDENDS

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

### (a) Dividends

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

	2021 \$'000	2020 \$'000
Interim dividend declared and paid after the interim period of 30 cents per share (2020: 30 cents per share)	29,910	27,000

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

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

	Six months ended 30 June 2021 \$'000	2020 \$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of 55 cents per share (six months ended 30 June 2020: 50 cents per share)	49,500	45,000

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

Dividends on redeemable preference shares are paid semi-annually in arrears at a rate of 5% per annum of the shares' nominal amount on 30 June and 31 December each year as from their issue date of 1 January 2020. Dividends of \$100,000 were recognised as an expense in finance costs for the six months ended 30 June 2021 (six months ended 30 June 2020: \$100,000). Dividends of \$100,000 were accrued and presented in "Other current liabilities" as at 30 June 2021 (31 December 2020: \$100,000).

HKAS  
34.16A(e)

### (b) Bonus issue

On 8 January 2021, the company made a bonus issue on the basis of 1 bonus share for every 10 existing shares held by shareholders in recognition of their continual support. A total of 9,000 ordinary shares were issued pursuant to the bonus issue.

**(c) Purchase of own shares**

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

During the interim period, the company repurchased its own shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share \$	Lowest price paid per share \$	Aggregate price paid \$'000
February 2021	300,000	6.65	6.55	1,980
May 2021	200,000	6.80	6.70	1,350
				<u>3,330</u>

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid on the repurchased shares of \$3,330,000 was paid wholly out of retained profits.<sup>57</sup>

**(d) Equity settled share-based transactions**

On 1 May 2021, 500,000 share options were granted for nil consideration to employees of the company under the company's employee share option scheme (no share options were granted during the six months ended 30 June 2020). Each option gives the holder the right to subscribe for one ordinary share of the company. These share options will vest on 30 April 2022, and then be exercisable until 2024. The exercise price is \$6.5, being the weighted average closing price of the company's ordinary shares immediately before the grant.

No options were exercised during the six months ended 30 June 2021 (2020: nil).

<sup>57</sup> When a company repurchases the shares out of distributable profits under section 257 of the CO, it should record the debit entry to its "retained profits" and reduce the number of shares in issue for the shares cancelled under section 269 of the CO.

For overseas incorporated companies, the relevant overseas legislation in relation to repurchase of shares would need to be followed.

HKFRS 13.91-92, 94-95 & 99

<sup>58</sup> Paragraph 16A(j) of HKAS 34 requires entities to apply paragraph 91-93(h), 94-96, 98 and 99 of HKFRS 13 for disclosures about financial instruments which are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition. As explained in footnote 59 below, recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. All other measurements using fair value are “non-recurring”.

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

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

The disclosure requirements (mostly in paragraph 93 of HKFRS 13) are different depending on whether the fair value measurement is recurring or non-recurring, and depending on which level of the 3-Level fair value hierarchy (as further discussed in footnote 60 below) that the financial assets or financial liabilities are categorised within. The most extensive requirements are for Level 3 measurements that are recurring.

Paragraph 92 of HKFRS 13 explicitly requires that if the disclosures provided in accordance with the standard and other HKFRSs are insufficient to meet the above disclosure objectives, entities should disclose additional information necessary to meet those objectives.

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

HKFRS 13.93(a)

<sup>59</sup> Recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. So far as financial instruments are concerned, examples of recurring fair value measurements include financial assets at fair value through profit or loss and financial assets measured at fair value through other comprehensive income.

HKFRS 13.93(b), 72-90

<sup>60</sup> For recurring and non-recurring fair value measurements, entities are required to disclose the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique for that particular asset or liability as follows:

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

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

HKAS  
34.16A(j)

## 14 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

HKFRS  
13.91-92

### (a) Financial assets and liabilities measured at fair value<sup>58</sup>

HKFRS  
13.93(a) & (b)

#### (i) Fair value hierarchy<sup>60</sup>

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

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

HKFRS  
13.93(g)

The group has a team headed by the finance manager performing valuations for the financial instruments, including the unlisted equity securities and the conversion option embedded in convertible notes. The team reports directly to the chief financial officer and the audit committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer and the audit committee is held twice a year, to coincide with the reporting dates<sup>61</sup>.

	Fair value at 30 June 2021 <sup>62</sup> \$'000	Fair value measurements as at 30 June 2021 categorised into		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Recurring fair value measurement<sup>59</sup></b>				
Financial assets:				
Units in bond funds	15,875	15,875	-	-
Non-trading listed equity securities	8,210	8,210	-	-
Unlisted equity securities	4,975	-	-	4,975
Trading securities	58,176	58,176	-	-
Derivative financial instruments:				
- Interest rate swaps	1,522	-	1,522	-
- Forward exchange contracts	735	158	577	-
Financial liabilities:				
Derivative financial instruments:				
- Interest rate swaps	54	-	54	-
- Forward exchange contracts	38	-	38	-
- Conversion option embedded in convertible notes	198	-	-	198

HKFRS 13.93(g),  
IE65

<sup>61</sup> For fair value measurements categorised in Level 3 of the fair value hierarchy, entities should provide a description of the valuation processes used. IE65 of HKFRS 13 gives examples of information that the entity may disclose in respect of the valuation processes.

	Fair value at 31 December 2020 <sup>63</sup> \$'000	Fair value measurements as at 31 December 2020 categorised into		
		Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Recurring fair value measurement<sup>59</sup></b>				
Financial assets:				
Units in bond funds	15,176	15,176	-	-
Non-trading listed equity securities	6,710	6,710	-	-
Unlisted equity securities	4,950	-	-	4,950
Trading securities	58,020	58,020	-	-
Derivative financial instruments:				
- Interest rate swaps	1,489	-	1,489	-
- Forward exchange contracts	2,124	659	1,465	-
Financial liabilities:				
Derivative financial instruments:				
- Interest rate swaps	52	-	52	-
- Forward exchange contracts	20	-	20	-
- Conversion option embedded in convertible notes	171	-	-	171

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

During the six months ended 30 June 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2020: 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.<sup>64</sup>

HKFRS 13.93(a)  
& 94

<sup>62</sup> 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. So far as financial instruments are concerned, "classes" would be determined at a lower level than the measurement categories (i.e. amortised cost, fair value through profit or loss, fair value through other comprehensive income – recycling and non-recycling) in HKFRS 9 when the financial instruments within the same category have different nature, characteristics or risks. For example, in this illustration, the category "measured at fair value through profit or loss" is sub-divided into trading and non-trading securities.

As stated in paragraph 94 of HKFRS 13, the number of classes may need to be greater for Level 3 fair value measurements as they have a greater degree of uncertainty and subjectivity.

HKFRS  
13.C2&C3

<sup>63</sup> HKAS 34 does not explicitly require comparative information to be included in the selected explanatory notes in a condensed interim financial report. In our experience, entities generally include both quantitative and narrative comparative information in the explanatory notes because the disclosure is of continuing relevance to the current interim period. Therefore, it would be appropriate to include the comparative information when providing the required HKFRS 13 disclosures in the condensed interim financial report.

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

<sup>64</sup> Entities are required to disclose, for recurring fair value measurements:

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

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

HKFRS  
13.93(d)

<sup>65</sup> Entities are required to disclose, for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. For fair value measurements categorised within Level 3, information about the significant unobservable inputs used has to be quantitative.

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

HKFRS  
13.93(d)

(ii) Valuation techniques and inputs used in Level 2 fair value measurements<sup>65</sup>

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.

HKFRS  
13.93(d)

(iii) Information about Level 3 fair value measurements<sup>65</sup>

	Valuation techniques	Significant unobservable inputs	Range <sup>66</sup>	Weighted average <sup>66</sup>
Unlisted equity instruments	Market comparable companies	Discount for lack of marketability	[●]% to [●]%	[●]%
Conversion option embedded in convertible notes	Binomial lattice model	Expected volatility	(2020: [●]% to [●]%) [●]%	(2020: [●]%) [●]%

HKFRS  
13.93(h)

The fair value of unlisted equity instruments is determined using the price/earning ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. As at 30 June 2021, 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 \$[●] (2020: [●]%).

<sup>66</sup> 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)

<sup>67</sup> For financial instruments measured at fair value on a recurring basis and categorised within Level 3, entities should provide the following information:

- a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might change fair value significantly. This narrative description should include, at a minimum, the unobservable inputs that have been disclosed under paragraph 93(d) of HKFRS 13;
- a description of the interrelationships and how they might magnify or mitigate the effect of changes if there are interrelationships between those inputs; and
- a quantitative sensitivity analysis if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly.

HKFRS  
13.93(e) &  
93(f)

<sup>68</sup> For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, entities should provide a reconciliation from the opening balances to the closing balances. This reconciliation should separately disclose the changes during the period attributable to:

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

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



The fair value of conversion option embedded in convertible notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 30 June 2021, 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 \$[●] (2020: [●]%).<sup>67</sup>

HKFRS  
13.93(e)&(f)

The movement during the period in the balance of Level 3 fair value measurements is as follows:<sup>68</sup>

	At 30 June 2021 \$'000	At 30 June 2020 <sup>69</sup> \$'000
Unlisted equity securities:		
At 1 January	4,950	4,800
Additional securities acquired	-	60
Net unrealised gains or losses recognised in other comprehensive income during the period	25	50
At 30 June	<u>4,975</u>	<u>4,910</u>
Conversion option embedded in convertible notes:		
At 1 January	171	169
Changes in fair value recognised in profit or loss during the period	27	2
At 30 June	<u>198</u>	<u>171</u>
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	<u>27</u>	<u>2</u>

<sup>69</sup> As discussed in footnote 63, we believe that it would be appropriate to include the comparatives when providing the required HKFRS 13 disclosures in the condensed interim financial report.

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

- covering the comparable interim period (i.e. here reconciling from the balances at 1 January 2020 to the balances at 30 June 2020). This approach is based on the view that as the reconciliation includes separate disclosures of gains or losses recognised in profit or loss and in other comprehensive income during the period, the reconciliation will have better comparability when those disclosures provide the information relating to gains or losses recognised in the comparable interim period. This approach is also consistent with the minimum information required to be disclosed in the statement of changes in equity under HKAS 34.20(c); or
- covering the full immediately preceding financial year with additional subtotals showing the balances at the preceding interim period end (i.e. here first reconciling from the balances at 1 January 2020 to the balances at 30 June 2020/1 July 2020, and then from the balances at 30 June 2020/1 July 2020 to 31 December 2020). This approach is consistent with the approach illustrated in HK Listco's statement of changes in equity and provides full reconciliation to the comparative statement of financial position, which is required to present the balances at the end of the immediately preceding financial year under HKAS 34.20(a).

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

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

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

**(b) Fair values of financial assets and liabilities carried at other than fair value<sup>70</sup>**

HKFRS  
7.25-26,  
HKFRS  
13.97

The carrying amounts of the group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2020 and 30 June 2021 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 30 June 2021		At 31 December 2020	
	Carrying amount	Fair value	Carrying amount	Fair value
	\$'000	\$'000	\$'000	\$'000
Convertible notes	9,462	8,521	9,356	8,450
Redeemable preference shares	3,912	2,766	3,912	2,628

HKFRS 7.25-26 and 28-30

<sup>70</sup> Paragraph 16A(j) of HKAS 34 requires entities to disclose in the interim financial reports the information required by paragraph 25-26 and 28-30 of HKFRS 7 for their financial instruments. In this illustration we have illustrated the disclosures required by paragraph 25-26 of HKFRS 7, i.e. the fair values for each class of financial assets and financial liabilities that are not carried at fair value. As stated in paragraph 29 of HKFRS 7, such disclosure is not required:

- when the carrying amount of a 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.

In addition, the additional details required in the annual financial statements by paragraph 97 of HKFRS 13 in respect of this memorandum information are not required to be disclosed in the interim financial reports, as paragraph 97 of HKFRS 13 is omitted from the list in paragraph 16A(j) of HKAS 34.

HKAS  
34.15B(e)

## 15 COMMITMENTS

### Capital commitments outstanding at 30 June 2021 not provided for in the interim financial report

	At 30 June 2021 \$'000	At 31 December 2020 \$'000
Contracted for	1,539	6,376
Authorised but not contracted for	12,500	660
	<u>14,039</u>	<u>7,036</u>

## 16 CONTINGENT ASSETS AND LIABILITIES

HKAS  
34.15B(m)

In June 2021, 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<sup>38</sup>. Under the subsidiary's employer's liability insurance policy, it is probable that in such circumstances the subsidiary could recover approximately \$2 million from the insurer. The subsidiary denies any liability in respect of the injury and, based on legal advice, the directors do not believe it probable that the court will find against them. No provision has therefore been made in respect of this claim.

## 17 MATERIAL RELATED PARTY TRANSACTIONS

HKAS  
34.15B(j)

In January 2021, 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.

## 18 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

HKAS  
34.16A(h)

Subsequent to the end of the reporting period, one of the group's major trade debtors went into liquidation following a serious fire at their main production facilities in July 2021. Of the \$100,000 owed by the debtor, the group expects to recover less than \$10,000. No adjustment has been made in this interim financial report in this regard.

## [19 IMPACTS OF COVID-19 PANDEMIC

HKAS  
34.16A(c)

The COVID-19 pandemic since early 2020 has brought about additional uncertainties in the group's operating environment and has impacted the group's operations and financial position.

The group has been closely monitoring the impact of the developments on the group's business and has put in place contingency measures. These contingency measures include: *[name any specific measures taken by the entity in response to the COVID-19 pandemic]*. *[The group will keep the contingency measures under review as the situation evolves.]*

As far as the group's businesses are concerned, *[provide relevant entity-specific information that helps users of the interim financial report to understand the overall impact of the COVID-19 pandemic on the entity's financial position and financial performance, for example*

- (a) *Significant judgements and estimation uncertainty*
  - *Uncertainties associated with the going concern assumption*
  - *Measurement of recoverable amounts of non-financial assets and goodwill*
  - *Measurement of expected credit losses (ECL)*
  - *Measurement of net realisable value (NRV) of inventories*
  - *Measurement of liabilities including provision for onerous contracts*
- (b) *Fair value measurement*
- (c) *Financial risk management and capital management*
- (d) *Revenue recognition*
- (e) *Government grants and other assistance*
- (f) *COVID-19-related rent concessions (note 8(a))*
- (g) *Presentation of COVID-19 related profit or loss items*
- (h) *Current or non-current classification*
- (i) *Held-for-sale classification and discontinued operation*
- (j) *Events after the end of the interim reporting period (note 18) <sup>71</sup>.*

## [20 COMPARATIVE FIGURES

As a result of the application of [• • •] certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2021. Further details of the changes in accounting policies are disclosed in note 2.]

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<sup>71</sup> For relevant guidance on potential areas of financial reporting impact arising from the COVID-19 pandemic, see our [Financial Reporting Hot Topics: Coronavirus](#) and [COVID-19 financial reporting resource centre](#).

HKSRE  
2410.43(a)  
&(b)

CP

## Review report to the board of directors of HK Listco Ltd<sup>72</sup>

(Incorporated in Hong Kong with limited liability)<sup>73</sup>

### Introduction

HKSRE  
2410.43(c)

We have reviewed the interim financial report set out on pages 14 to 54 which comprises the consolidated statement of financial position of HK Listco Ltd (the “company”) as of 30 June 2021 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

HKSRE  
2410.43(e)

HKSRE  
2410.43(f)

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

### Scope of review

HKSRE  
2410.43(g)

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

HKSRE  
2410.43(h)

### Conclusion

HKSRE  
2410.43(j)

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2021 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

KPMG  
Certified Public Accountants  
8th Floor, Prince’s Building  
10 Chater Road  
Central, Hong Kong  
25 August 2021

A16(43)

<sup>72</sup> While paragraph 39 of Appendix 16 of MBLRs requires the interim report to be reviewed by the listed issuer’s audit committee, there is no requirement for the external auditors to perform an audit or review on the interim report. If the accounting information contained in an interim report has been audited by the listed issuer’s auditor, the auditor’s report including any qualifications should be reproduced in full in the interim report. However, the MBLRs are silent as to whether the auditor’s review report should be set out in the interim report if an independent review has been performed by the auditors.

CP

<sup>73</sup> In Hong Kong, it is common practice to disclose the place of incorporation of the company in the auditor’s report.



## Appendix A

### Recent HKFRS developments

This appendix lists the new Standards, amendments to, and Interpretations of, HKFRSs in issue as at 30 June 2021 which were not yet effective for the 2020 calendar year-ends and therefore may need to be considered for the first time in the preparation of the 2021 interim financial statements. The appendix contains two tables:

- Table A1 lists recent HKFRS developments which are required to be adopted in annual accounting periods beginning on or after 1 January 2021.
- Table A2 lists those developments which are available for early adoption in that period, but are not yet mandatory.

The appendix includes a brief overview of these new developments, focusing particularly on those which are likely to be of interest or concern. All of these developments are as a direct consequence of amendments and revisions to IFRSs made by the IASB and adopted by the HKICPA word-for-word and with the same effective dates. More information on these developments can be obtained from your usual KPMG contact.

*\* all of the effective dates given below refer to the start of an annual accounting period, unless otherwise noted.*

Effective date*	<b>Table A1: Amendments to HKFRSs first effective for annual periods beginning 1 January 2021</b>	
1 Jun 2020	Amendment to HKFRS 16, <i>Leases</i> "Covid-19-related rent concessions"	<p>The amendment allows a lessee (but not a lessor) 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:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• any reduction in lease payments affects only payments originally due on or before 30 June 2021; and</li> <li>• there is no substantive change to other terms and conditions of the lease.</li> </ul> <p>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 equity at the beginning of the annual reporting period.</p>
1 Jan 2021	Amendments to HKFRS 9, Financial instruments, HKAS 39, Financial instruments: Recognition and measurement, HKFRS 7, Financial instruments: Disclosures, HKFRS 4, Insurance contracts and HKFRS 16, Leases "Interest rate benchmark reform — phase 2"	<p>The amendments provide targeted reliefs from (i) accounting for changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities as modifications, and (ii) discontinuing hedge accounting when an interest rate benchmark is replaced by an alternative benchmark rate as a result of the reform of interbank offered rates ("IBOR reform").</p> <p>Entities are required to apply the amendments retrospectively, with an exception in relation to hedging relationships that are discontinued solely due to changes required by IBOR reform, and provide disclosures about:</p> <ul style="list-style-type: none"> <li>• the nature and extent of risks to which the entities are exposed arising from financial instruments subject to IBOR reform and how it manages those risks; and</li> <li>• the progress in completing the transition to alternative benchmark rates and how it is managing the transition.</li> </ul> <p>Entities are not required to restate prior periods to reflect the application of the amendments. However, entities may restate prior periods if it is possible without the use of hindsight.</p>

[End of Table A1]

Effective date*	Table A2: Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2021 but may be adopted early	
1 Apr 2021	Amendment to HKFRS 16, <i>Leases</i> “Covid-19-related rent concessions beyond 30 June 2021”	<p>The amendment extends the time limit in one of the qualifying criteria of the practical expedient for COVID-19-related rent concessions from 30 June 2021 to 30 June 2022. As such, the use of the practical expedient is available to more rent concessions, in particular those involving reduction in lease payments originally due after 30 June 2021 but before 30 June 2022.</p> <p>The amendment is effective for annual periods beginning on or after 1 April 2021. Earlier application is permitted, including in financial statements not yet authorised for issue at 9 April 2021, the date the amendment was issued by the HKICPA.</p> <p>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 equity at the beginning of the annual reporting period. Lessees that had elected to apply the practical expedient in their previous financial statements are required to apply the extension to eligible contracts with similar characteristics and in similar circumstances.</p>
1 Jan 2022	Amendments to HKFRS 3, <i>Business combinations</i> “Reference to the conceptual framework”	<p>The amendments update the reference to the latest version of <i>Conceptual Framework</i> issued in March 2018, and add an exception to the requirement for an entity to refer to the <i>Conceptual Framework</i> to determine what constitutes an asset or a liability.</p> <p>The exception relates to liabilities and contingent liabilities that would have been within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination. Under the exception, when applying HKFRS 3 an entity should apply the more specific criteria in HKAS 37 or HK(IFRIC)-Int 21 respectively (instead of the <i>Conceptual Framework</i>) to determine whether a present obligation exists at the acquisition date.</p>
1 Jan 2022	Amendments to HKAS 16, <i>Property, plant and equipment</i> “Property, plant and equipment: Proceeds before intended use”	<p>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.</p> <p>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.</p>
1 Jan 2022	Amendments to HKAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i> “Onerous contracts — cost of fulfilling a contract”	<p>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.</p> <p>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 that exist at the date when the amendments are first applied, with the cumulative effect of applying the amendments to be recognised as an adjustment to the opening balance of equity at the beginning of the annual reporting period.</p>



Effective date*	Table A2 (continued): Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2021 but may be adopted early	
1 Jan 2022	<p>Annual Improvements to HKFRSs 2018-2020 Cycle</p> <ul style="list-style-type: none"> <li>- Amendment to HKFRS 1, <i>First-time adoption of Hong Kong Financial Reporting Standards</i></li> <li>- Amendment to HKFRS 9, <i>Financial instruments</i></li> <li>- Amendment to illustrative examples accompanying HKFRS 16, <i>Leases</i></li> <li>- Amendment to HKAS 41, <i>Agriculture</i></li> </ul>	<p>This package of annual improvements contains amendments to three standards, namely HKFRS 1, HKFRS 9 and HKAS 41, and an amendment to an illustrative example accompanying HKFRS 16.</p> <p>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.</p> <p>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.</p> <p>The amendment to illustrative example 13 accompanying HKFRS 16 removes from the fact pattern a reimbursement relating to leasehold improvements, as the example had not explained clearly whether the reimbursement would meet the definition of a lease incentive in HKFRS 16.</p> <p>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 HKFRS 13.</p>
1 Jan 2023	<p>HKFRS 17 and Amendments to HKFRS 17</p> <p>"Insurance contracts"</p>	<p>HKFRS 17 sets 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. HKFRS 17 will replace HKFRS 4, which was brought in as an interim standard and is largely based on grandfathering previous local accounting policies.</p> <p>The HKICPA has issued amendments to HKFRS 17 on 19 October 2020 to defer the effective date of HKFRS 17 to annual reporting periods beginning on or after 1 January 2023 and introduce other changes to:</p> <ul style="list-style-type: none"> <li>• simplify some of the requirements;</li> <li>• make financial performance easier to explain; and</li> <li>• ease transition by providing additional transition reliefs.</li> </ul> <p>An amendment to the previous insurance contracts standard, HKFRS 4, has also been issued by the HKICPA to extend the temporary exemption that permits the insurer to apply HKAS 39 rather than HKFRS 9 to annual periods before 1 January 2023.</p>
1 Jan 2023	<p>Amendments to HKAS 1, <i>Presentation of financial statements</i></p> <p>"Classification of liabilities as current or non-current"</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• specify that an entity's right to defer settlement must exist at the end of the reporting period;</li> <li>• clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;</li> <li>• clarify how lending conditions affect classification; and</li> <li>• clarify the classification of liabilities that will or may be settled by issuing an entity's own equity instruments.</li> </ul>

Effective date*	Table A2 (continued): Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2021 but may be adopted early	
1 Jan 2023	Amendments to HKAS 1, <i>Presentation of financial statements</i> and HKFRS Practice Statement 2, <i>Making materiality judgements</i> “Disclosure of accounting policies”	The amendments seek to promote improved accounting policy disclosures that provide more useful information to investors and other primary users of the financial statements.  Apart from clarifying that entities are required to disclose their “material” rather than “significant” accounting policy, the amendments provide guidance on applying the concept of materiality to accounting policy disclosures.
1 Jan 2023	Amendments to HKAS 8, <i>Accounting policies, changes in accounting estimates and errors</i> “Definition of accounting estimates”	The amendments clarify the distinction between changes in accounting policies and changes in accounting estimates. Among other things, the amendments now define accounting estimates as monetary amounts in financial statements that are subject to measurement uncertainty, and clarify that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates unless they result from the correction of prior period errors.  The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. Entities are required to apply the amendments prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the entity applies the amendments.
1 Jan 2023	Amendments to HKAS 12, <i>Income taxes</i> “Deferred tax related to assets and liabilities arising from a single transaction”	The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of HKAS 12 so that it does not apply to such transactions as leases and decommissioning provisions that, on initial recognition, give rise to equal taxable and deductible temporary differences. Consequently, entities will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on these transactions.  The amendments are effective for annual reporting periods beginning on or after 1 January 2023. Earlier application is permitted. Entities should apply the amendments to transactions that occur on or after the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date.
To be determined	Amendments to HKFRS 10, <i>Consolidated financial statements</i> and HKAS 28, <i>Investments in associates and joint ventures</i> “Sale or contribution of assets between an investor and its associate or joint venture”	The amendments introduce new requirements on loss of control over assets in a transaction with an associate or joint venture. These requirements require the full gain to be recognised when the assets transferred meet the definition of a “business” under HKFRS 3, <i>Business combination</i> .  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.

[End of Table A2]

## Appendix B

### 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<sup>1</sup> 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 2020, 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/>) and published shortly after each IFRIC meeting. The website also contains a compilation of past agenda decisions (<https://www.ifrs.org/supporting-implementation/how-we-help-support-consistent-application/#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 2021	<p><b>Costs necessary to sell inventories:</b></p> <p>When determining the net realisable value of inventories, do 'estimated costs necessary to make the sale' refer to all necessary costs or only incremental costs?</p>	<p>The Committee observed that the objective of determining the net realisable value of inventories, as set out in paragraph 28 of IAS 2, is to avoid inventories being carried 'in excess of amounts expected to be realised from their sale'.</p> <p>The Committee therefore concluded that, when determining net realisable value, an entity estimates the costs necessary to sell the inventories in the ordinary course of business, rather than limits such costs to only those that are incremental. Judgement is required to determine which costs are necessary to make the sale considering the entity's specific facts and circumstances, including the nature of the inventories.</p>

<sup>1</sup> "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 2021	<p><b>Preparation of financial statements when an entity is no longer a going concern:</b></p> <ol style="list-style-type: none"> <li>1. An entity, which is no longer a going concern, prepares financial statements for prior periods during which it was a going concern. Can it prepare those financial statements on a going concern basis?</li> <li>2. An entity, which is no longer a going concern, previously issued financial statements for the prior period on a going concern basis. When preparing the current period financial statements, should it restate comparative information to reflect the current basis of accounting?</li> </ol>	<p>For question 1, the Committee concluded that if the entity is no longer a going concern after the end of the reporting period, that is always 'adjusting' applying paragraph 25 of IAS 1 and paragraph 14 of IAS 10. Accordingly, the entity cannot prepare financial statements for prior periods that have not yet been authorised for issue on a going concern basis.</p> <p>For question 2, the Committee observed no diversity in practice and did not provide any further educational material on the application of the relevant requirements.</p>
Apr 2021	<p><b>IAS 19 - Attributing benefit to periods of service:</b></p> <p>How to determine the periods of service to which an entity attributes the retirement benefit if</p> <ul style="list-style-type: none"> <li>• employees are entitled to a lump sum benefit payment when they reach a specified retirement age; and</li> <li>• the amount of the retirement benefit depends on the length of employee service before the retirement age and is capped at a specified number of consecutive years of service?</li> </ul>	<p><i>NB: For illustration purpose, it is assumed that employees are entitled to a retirement benefit only when they reach the retirement age of 62 and the retirement benefit is capped at 16 years of service. As such, any service before the age of 46 (62 – 16) does not lead to benefits under the plan.</i></p> <p>Paragraph 72 of IAS 19 specifies that employee service gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment.</p> <p>The Committee observed that, in the fact pattern described in the request, the entity attributes retirement benefit to each year in which an employee renders service from the age of 46 to the age of 62 (or, if employment commences on or after the age of 46, from the date the employee first renders service to the age of 62) because:</p> <ol style="list-style-type: none"> <li>(a) employee service before the age of 46 affects neither the timing nor the amount of the retirement benefit (paragraph 71 of IAS 19);</li> <li>(b) service rendered between the age of 46 and the age of 62 reduces the amount of future service an employee will have to render before becoming entitled to the retirement benefit (paragraph 73); and</li> </ol> <p>an employee will receive no material amount of further benefits from the age of 62, regardless of the age at which the employee joins the entity (paragraph 73).</p>

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Apr 2021	<p><b>Hedge accounting:</b></p> <p>Can the variability in cash flows arising from changes in the <i>real</i> interest rate (rather than the nominal interest rate) qualify as the hedged item in a cash flow hedge?</p>	<p>An entity enters into an inflation swap to swap the variable interest cash flows of a floating rate instrument into variable cash flows based on an inflation index, which it viewed as 'fixed' cash flows from the perspective of the real interest rate (or in 'real terms').</p> <p>The desired designation of the hedged item would involve a non-contractually specified real interest rate risk component, which needs to be <i>separately identifiable and reliably measurable</i>.</p> <p>However, while nominal rates might be influenced by real interest rates, they generally do not change as a <i>direct result</i> of changes in real interest rates. Hence, for a cash flow hedge, the existence in the relevant debt market of a term structure of zero-coupon real interest rate does <u>not</u>, in itself, overcome the rebuttable presumption in IFRS 9.B6.3.13 that a non-contractually specified real interest rate risk component is not separately identifiable and reliably measurable.</p> <p>Moreover, as interest cash flows and rates for floating rate financial instrument are concepts representing nominal terms, the variability in cash flows of the floating rate instrument attributable to the designated risk component needs to be assessed in nominal terms.</p> <p>Therefore, the entity does <u>not</u> have exposure to variability in cash flows arising from the changes in the real interest rate that meets the qualifying criteria for hedge accounting.</p>
Mar 2021	<p><b>Configuration or customisation costs in a cloud computing arrangement:</b></p> <p>How does a customer accounts for the configuring<sup>1</sup> or customising<sup>2</sup> costs in a Software as a Service (SaaS) arrangement, if the customer only receives service (i.e. the right to receive access to the supplier's application software) but not any software asset?</p> <p><sup>1</sup> Configuration involves the setting of various 'flags' or 'switches' within the application software, or defining values or parameters, to set up the software's existing code to function in a specified way.</p> <p><sup>2</sup> Customisation involves modifying the software code in the application or writing additional code, and generally changes, or creates additional, functionalities within the software.</p>	<p><u>Issue 1: Does the configuration or customisation result in an intangible asset for the customer?</u></p> <p>Based on the nature and output of the configuration or customisation performed, the customer assesses whether both the definition of an intangible asset in paragraphs 8-17 and the recognition criteria in paragraphs 21-23 of IAS 38 are met.</p> <p>The Committee observed that, in the SaaS arrangement described in the request, the customer often would not recognise an intangible asset, because the configuration or customisation activities do not create a resource controlled by the customer that is separate from the software controlled by the supplier. In some cases, the arrangement may result in a resource (e.g. additional code) controlled by the customer; in those cases the customer still needs to assess whether that resource is "identifiable" and meets the recognition criteria in IAS 38.</p>

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Mar 2021	<p><b>Configuration or customisation costs in a cloud computing arrangement:</b></p> <p>How does a customer accounts for the configuring<sup>1</sup> or customising<sup>2</sup> costs in a Software as a Service (SaaS) arrangement, if the customer only receives service (i.e. the right to receive access to the supplier's application software) but not any software asset?</p> <p><sup>1</sup> Configuration involves the setting of various 'flags' or 'switches' within the application software, or defining values or parameters, to set up the software's existing code to function in a specified way.</p> <p><sup>2</sup> Customisation involves modifying the software code in the application or writing additional code, and generally changes, or creates additional, functionalities within the software. (continued)</p>	<p><u>Issue II: If an intangible asset is not recognised, how does the customer account for the configuration or customisation costs?</u></p> <p>By applying paragraphs 68-70 of IAS 38, the Committee observed that:</p> <ul style="list-style-type: none"> <li>(a) if the contract for the configuration or customisation services is with the supplier of the application software (including cases in which the supplier subcontracts these services to a third party), the customer assesses whether the services received are distinct from the right to receive access to the supplier's application software, by analogy to the requirements under IFRS 15 that the suppliers apply in identifying the promised goods or services in a contract with a customer. The result of this assessment in turn determines the timing of recognising the costs as expense: <ul style="list-style-type: none"> <li>i. if the configuration or customisation services are distinct, the costs are recognised when the supplier configures or customises the application software.</li> <li>ii. if the configuration or customisation services are not distinct, the costs are recognised when the supplier provides access to the application software over the contract term.</li> </ul> </li> <li>(b) If the contract for the configuration or customisation services is with a party other than the supplier of the application software, the customer recognises the costs as an expense when the third-party supplier configures or customises the application software.</li> <li>(c) if the customer pays the supplier of the configuration or customisation services before receiving those services, it recognises the prepayment as an asset in accordance with paragraph 70 of IAS 38.</li> </ul> <p>Paragraphs 117–124 of IAS 1 require the customer to disclose its accounting policy for configuration or customisation costs when that disclosure is relevant to an understanding of its financial statements.</p>
Dec 2020	<p><b>Reverse factoring arrangement:</b></p> <p>How should the liabilities that are part of a reverse factoring arrangement be presented and disclosed in the financial statements?</p>	<p><i>Presentation in the statement of financial position</i></p> <p>The Committee concluded that paragraphs 29, 54-55 and 57 of IAS 1 require an entity to consider the size, nature and function of liabilities that are part of a reverse factoring arrangement and determine whether they should be presented:</p> <ul style="list-style-type: none"> <li>(a) within trade and other payables;</li> <li>(b) as other financial liabilities; or</li> <li>(c) as a separate line item.</li> </ul> <p>In assessing whether the nature or function of those liabilities is sufficiently dissimilar to other line items such that separate presentation is relevant to an understanding of the entity's financial position, the Committee observed that the entity considers the amounts, nature and timing of those liabilities in accordance with paragraph 58 of IAS 1 – relevant factors might include whether additional security is provided as part of the arrangement that would not be provided without the arrangement, or the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.</p>



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Dec 2020	<p><b>Reverse factoring arrangement:</b></p> <p>How should the liabilities that are part of a reverse factoring arrangement be presented and disclosed in the financial statements?</p> <p><i>(continued)</i></p>	<p>The Committee observed that an entity only presents liabilities that are part of a reverse factoring arrangement within 'trade and other payables' when those liabilities have a similar nature and function to trade payables. In this regard, the Committee concluded that, applying paragraph 70 of IAS 1 and paragraph 11(a) of IAS 37, an entity presents a liability as trade payable only when it:</p> <ul style="list-style-type: none"> <li>(a) represents a liability to pay for goods or services;</li> <li>(b) is invoiced or formally agreed with the supplier; and</li> <li>(c) is part of the working capital used in the entity's normal operating cycle.</li> </ul> <p>An entity that derecognises a trade payable to a supplier and recognises a new financial liability to a financial institution applies the above IAS 1 principles in determining how to present that new liability in its statement of financial position.</p> <p><i>Presentation in the statement of cash flows</i></p> <p>The Committee concluded that:</p> <ul style="list-style-type: none"> <li>(a) if a cash inflow and cash outflow occur for an entity when an invoice is factored as part of a reverse factoring arrangement, then the entity presents those cash flows in its statement of cash flows;</li> <li>(b) If no cash inflow or cash outflow occurs for an entity in a financing transaction, then the entity discloses the transaction elsewhere in the financial statements in a way that provides all the relevant information about the financing activity, in accordance with paragraph 43 of IAS 7.</li> </ul> <p>The Committee noted that an entity's assessment of the nature of the liabilities that are part of the arrangement may help in determining the classification of the related cash flows, which are typically from operating or financing activities (see paragraph 6 of IAS 7 for definitions).</p> <p><i>Disclosures in notes to the financial statements</i></p> <p>The Committee observed that reverse factoring arrangements often give rise to liquidity risk. In addition to the general principles in paragraphs 31, 33-35 of IFRS 7, paragraphs 39 and B11F of IFRS 7 specify further requirements and factors an entity might consider in providing liquidity risk disclosures.</p> <p>The Committee observed that paragraphs 112 and 122 of IAS 1 and paragraph 44A of IAS 7 would be particularly relevant when an entity determines whether to provide additional disclosures in the notes about the effect of reverse factoring arrangements on its financial position, financial performance and cash flows, e.g. when the application of the above IAS 1 and IAS 7 principles involves significant judgment, or when reverse factoring arrangements are so material to an entity's financial statements that additional information about such arrangements is relevant to an understanding of the financial statements.</p>


Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Jun 2020	<p><b>IFRS 16 – Sale and leaseback with variable payments:</b></p> <p>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?</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p><i>Note:</i></p> <p>(a) <i>The agenda decision contains a numerical example which illustrates the above measurement principles.</i></p> <p>(b) <i>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.</i></p>
Jun 2020	<p><b>IAS 12 - Deferred tax related to an investment in a subsidiary:</b></p> <p>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?</p>	<p>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.</p> <p>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.)</p>
Jun 2020	<p><b>IAS 38 &amp; IFRS 15 - Player transfer payments:</b></p> <p>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?</p>	<p>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.</p> <p>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.</p>



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Apr 2020	<p><b>Multiple tax consequences of recovering an asset:</b></p> <p>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?</p>	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>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</li> <li>Capital gains tax regime: the entity receives a tax deduction when the license expires.</li> </ul> <p>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.</p> <p>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.</p> <p>The entity then applies the requirements in IAS 12 in recognising and measuring deferred tax for the identified temporary differences.</p>
Mar 2020	<p><b>IFRS 15 &amp; IAS 38 – Training costs to fulfil a contract:</b></p> <p>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 <i>Revenue from Contracts with Customers</i>?</p>	<p>The Committee concluded that, in the fact pattern described in the request, the entity applies IAS 38 <i>Intangible Assets</i> 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.</p> <p>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.</p>

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Mar 2020	<p><b>IAS 21 &amp; IAS 29 – Translation of a hyperinflationary foreign operation into the (non-hyperinflationary) presentation currency in the parent's consolidated financial statements:</b></p> <p>(a) Presenting exchange differences arising from translating a hyperinflationary foreign operation:</p> <p>How should the entity present the restatement and translation effects of a hyperinflationary foreign operation?</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• The restatement effect (paragraph 43 of IAS 21 <i>The effect of changes in foreign exchange rates</i>), which results from restating the entity's interest in the equity of the hyperinflationary foreign operation as required by IAS 29 <i>Financial Reporting in Hyperinflationary Economics</i>; and</li> <li>• 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.</li> </ul> <p>Do the restatement and translation effects meet the definition of an exchange difference?</p> <p>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:</p> <ul style="list-style-type: none"> <li>• View 1: the translation effect alone meets the definition of an exchange difference, or</li> <li>• View 2: the combination of the restatement and translation effects meet the definition of an exchange difference.</li> </ul> <p>How does an entity present any exchange difference arising from translating a hyperinflationary foreign operation?</p> <p>IFRIC concluded:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul>

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Mar 2020	<p><b>IAS 21 &amp; IAS 29 – Translation of a hyperinflationary foreign operation into the (non-hyperinflationary) presentation currency in the parent's consolidated financial statements (continued):</b></p> <p>(b) Presenting cumulative pre-hyperinflation exchange differences once a foreign operation becomes hyperinflationary:</p> <p>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?</p>	<p>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.</p> <p>The entity does not reclassify within equity the cumulative pre-hyperinflation exchange differences once the foreign operation becomes hyperinflationary.</p>
Mar 2020	<p><b>IAS 21 &amp; IAS 29 – Translation of a hyperinflationary foreign operation into the (non-hyperinflationary) presentation currency in the parent's consolidated financial statements (continued):</b></p> <p>(c) Presenting comparative amounts when a foreign operation first becomes hyperinflationary:</p> <p>Should an entity restate comparative amounts presented for a foreign operation in its:</p> <ul style="list-style-type: none"> <li>- annual financial statements for the period in which the foreign operation becomes hyperinflationary; and</li> <li>- interim financial statements in the year after the foreign operation becomes hyperinflationary, if the foreign operation was not hyperinflationary during the comparative interim period?</li> </ul>	<p>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.</p>

Meeting date	Issue discussed by IFRIC	Summary of IFRIC's conclusion on the issue
Jan 2020	<p><b>Definition of a lease – Decision-making rights:</b></p> <p>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?</p>	<p>For a contract to contain a lease, there are three key considerations:</p>  <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

[End of Table B]



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