Illustrative Interim Financial Report Under Hong Kong Financial Reporting Standards

June 2019

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KPMG
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

23rd Floor, Hysan Place
500 Hennessy Road
Causeway Bay, Hong Kong

Telephone (852) 2522 6022
Telefax (852) 2845 2588

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Abbreviations

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

Foreword

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

This guide includes:

- an illustrative interim financial report for the six months ended 30 June 2019 issued by a fictitious Main Board listed company, HK Listco Ltd ("HK Listco"), together with the independent auditor's review report; and

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

Recent financial reporting developments

The appendix to this guide sets out a complete list of recent developments in HKFRSs which were not yet effective for the 2018 calendar year-ends and therefore may need to be considered for the first time in the preparation of the 2019 interim financial report, including a brief overview of these new developments. The list is current as of 15 June 2019 and contains two tables:

- table 1 lists those amendments to HKFRSs which are required to be adopted in annual accounting periods beginning on or after 1 January 2019; and

- table 2 lists other developments which are available for early adoption in that period, but are not yet mandatory.

All of these developments arise from the HKICPA adopting equivalent changes made to IFRSs by the IASB, word for word and with the same effective dates and transitional provisions. As of 15 June 2019 there are no recent amendments to IFRSs which the HKICPA has yet to adopt.

As can be seen from table 1, there are a number of new or revised HKFRSs which are first effective for annual periods beginning 1 January 2019. Among them, HKFRS 16, *Leases,* is likely to have an impact on a wide range of entities. The following discusses how the impacts of this new standard have been illustrated in this Guide:

HKFRS 16

In common with most entities, HK Listco is impacted by HKFRS 16 in relation to capitalisation of leases previously classified as operating leases under HKAS 17, and presentation of right-of-use assets and lease liabilities.

While HKFRS 16 contains specific requirements on transitional disclosures and recurring disclosures, those disclosure requirements are not specifically applicable to condensed interim financial statements. Therefore, entities need to apply judgement in deciding the extent of disclosures to be made to help readers understand the nature and the impact of the changes in accounting policies, and any significant events and transactions relating to leases since the end of the last annual reporting period.

In this Guide, it is assumed that HK Listco adopts the new standard for the first time by recognising the cumulative effects of those changes in accounting policies as adjustments to the opening balances at 1 January 2019 and has not restated comparatives. This method is commonly referred to as the "modified retrospective approach". These opening balance adjustments have been illustrated in note 2 and note 8 has been expanded to provide an update about the group's leasing activities during the interim reporting period.

This method is the easiest method of adopting HKFRS 16 as it reduces the need to recreate a full history of the leases in existence at the earliest date presented. However, as the comparatives are not restated under this method, it is important that the disclosures in the first year of adoption are sufficiently clear. For this reason, although it is not specifically required, HK Listco has also included the balances of right-of-use assets and lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 (i.e. at 30 June 2019 and 1 January 2019 respectively) to assist readers in understanding the financial position impacted by the adoption of HKFRS 16. HK Listco has also updated the line items presented in the primary statements to be consistent with those expected to be disclosed in the 2019 annual financial statements. A detailed explanation of the changes of accounting policies is provided in note 2, which includes a summary of the new accounting policies.

Although there is no specific requirement to include in the interim financial report the additional transition disclosures applicable to entities using the modified retrospective approach, users may also find this information relevant in understanding the nature and the impact of the changes in accounting policies. Therefore, in this Guide, HK Listco has disclosed the weighted average incremental borrowing rate applied to lease liabilities recognised at 1 January 2019 and disclosed an explanation of the difference between the operating lease commitments disclosed applying HKAS 17 at 31 December 2018 and lease liabilities recognised at 1 January 2019 in accordance with HKFRS 16.C12.

Since the impact of adopting the new or revised standards 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 new standard.

Illustrative
Interim Financial Report

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

30 June 2019

"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 2019, and for any interim period that is part of such an annual period. Further details of these changes and how they have been illustrated in HK Listco's interim financial report can be found in the Foreword to this guide.

As further discussed in the Foreword to this guide, to assist in the assessment of the effects of the new and revised standards, the appendix to this guide contains further information on the new HKFRSs. The full text of the HKFRSs is available from the HKICPA's website, www.hkicpa.org.hk, under "Standards and regulation/Standards/Members' Handbook and Due Process/ Members' Handbook 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 under "Insights/IFRS News/HK/IFRS Illustrative Disclosure/Guides to IFRS financial statements/Interim disclosure checklists".

Sources of disclosure requirements

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

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

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

Extent of disclosure required in a condensed interim financial report

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

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

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

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

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

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

Compliance with IAS 34, *Interim financial reporting*

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

HK Listco Ltd

香港上市有限公司

(Stock code: • • • •)[1]

(formerly Model Electronics Company Limited)[2]

2019

Interim Financial Report
for the six months ended 30 June 2019

LR13.51A [1] A listed issuer shall set out its stock code in a prominent position on the cover page or, where there is no cover page, the first page of all announcements, circulars and other documents published by it pursuant to the MBLRs.

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

HKAS 1.51(a) [2] 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)

[3] In this illustrative interim financial report, HK Listco uses the titles "Statement of profit or loss" and "Statement of profit or loss and other comprehensive income", which are the titles used in HKAS 1 and HKAS 34. However, as allowed by paragraph 10 of HKAS 1, entities may use other titles for the statements. For example, the entity may use the titles "Income statement" and "Statement of comprehensive income".

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

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

A16(4) & (40)(1)

HKAS 34.10

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

HKAS 34.8A

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

HKAS 34.28

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

CP

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

A16(43)

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

HKFRS 16.C5(b), C7

[8] In this illustration, HK Listco has initially applied HKFRS 16 at 1 January 2019. It has elected to use the modified retrospective approach for the application of HKFRS 16. It has also taken advantage of a number of practical expedients available under this approach. Accordingly, comparative information is not restated, and instead the cumulative effect of adopting HKFRS 16 is recognised as an adjustment to equity as at 1 January 2019.

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

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

HKAS 1.45, 85
HKAS 40.76(d)

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

HKAS 34.11A

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

HKAS 1.107, BC75

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

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

Consolidated statement of profit or loss[3, 4, 5, 6] for the six months ended 30 June 2019 – unaudited[7]

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2019 $'000	2018 (Note)[8] $'000
Revenue	3 & 4	542,448	492,620
Cost of sales	5 & 9	(404,254)	(366,788)
Gross profit		138,194	125,832
Valuation gains on investment property		11,490	4,260
Valuation losses on investment property		(2,360)	(1,000)
Net valuation gain on investment property[9]	8(d)	9,130	3,260
Other income[12]	5	8,404	7,081
Distribution costs		(25,281)	(23,514)
Administrative expenses		(37,435)	(37,088)
Other operating expenses[13]	8(c)	(8,247)	(6,781)
Profit from operations		84,765	68,790
Finance costs	5	(10,366)	(6,345)
Share of profits less losses of associates		2,250	1,322
Share of profits of joint venture		335	68
Profit before taxation	5	76,984	63,835
Income tax	6	(13,602)	(10,668)
Profit for the period		63,382	53,167
Attributable to:			
Equity shareholders of the company		58,174	48,083
Non-controlling interests		5,208	5,084
Profit for the period		63,382	53,167
HKAS 34.11 & 11A **Earnings per share[10]**	7		
Basic		$0.58	$0.48
Diluted		$0.58	$0.48

CP

Note:
The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2[8].

The notes on pages 26 to 65 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 13[11].

HKAS 1.82(a) [12] Paragraph 82(a) of HKAS 1 requires an entity to present interest revenue calculated using the effective interest method separately from other sources of revenue. In this illustration, HK Listco's interest income arises from bank deposits and loans to associates. As HK Listco does not consider such interest income as income arising from the course of its ordinary activities, it does not present interest income separately as "revenue". Instead, it includes interest income as part of "other income".

HKAS 1.82 [13] 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:

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

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

CP [14] Each item on the face of the statement of profit or loss and other comprehensive income would generally be cross-referenced to any related information in the notes.

HKAS 1.82A

[15] Entities are required to present the items of other comprehensive income that may be reclassified to profit or loss in the future (e.g. the effective portion of a cash flow hedge that is recognised in other comprehensive income) separately from those that would never be reclassified to profit or loss (e.g. revaluation surplus of property, plant and equipment).

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

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

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

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

HKAS 1.92-94

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

HKAS 34.10

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

HKFRS 9.6.5.11(d)

In accordance with paragraph 6.5.11(d) of HKFRS 9, when (i) a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or (ii) a hedged forecast transaction for a non-financial asset or non-financial liability becomes a firm commitment for which fair value accounting is applied, an entity should remove that amount from the cash flow hedge reserve and include it directly in the initial carrying amount of the asset or liability (i.e. a basis adjustment). Such removal is not a reclassification adjustment under HKAS 1, and therefore does not impact other comprehensive income. In these illustrative interim financial statements, the basis adjustment is shown as a separate line item in the consolidated statement of changes in equity.

HKAS 1.90-91

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

HKAS 34.10

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

[17] As explained in footnote 15, 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 these illustrative interim financial statements, it is assumed that HK Listco only has equity instruments that are designated at FVOCI, for which the accumulated other comprehensive income will not be reclassified to profit or loss, i.e. non-recycling, and thus it has labelled the corresponding fair value reserve as such.

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

Consolidated statement of profit or loss and other comprehensive income[3, 14] for the six months ended 30 June 2019 – unaudited[7]

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June	
		2019	2018 (Note)[8]
		$'000	$'000
Profit for the period		63,382	53,167
Other comprehensive income[15] for the period (after tax[16] and reclassification adjustments[15]):			
Items that will not be reclassified to profit or loss[15]:			
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)[17]		25	25
		13,643	3,441
Items that may be reclassified subsequently to profit or loss[15]:			
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
Other comprehensive income for the period		11,983	3,731
Total comprehensive income for the period		75,365	56,898
Attributable to:			
Equity shareholders of the company		70,157	51,814
Non-controlling interests		5,208	5,084
Total comprehensive income for the period		75,365	56,898

CP

Note:

The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2[8].

The notes on pages 26 to 65 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[18, 19, 20, 21, 22] at 30 June 2019 – unaudited[7]

(Expressed in Hong Kong dollars)

	Note	At 30 June 2019		At 31 December 2018 (Note)[8]	
		$'000	$'000	$'000	$'000
Non-current assets[24]					
Investment property[26]	8		75,820		66,690
Other property, plant and equipment[26]	2, 8		218,203		141,882
			294,023		208,572
Intangible assets			16,560		14,400
Goodwill			1,100		1,100
Interest in associates			29,893		29,478
Interest in joint venture			32,430		32,095
Other financial assets			52,448		48,432
Deferred tax assets			3,017		3,495
			429,471		337,572
Current assets[24]					
Trading securities		58,176		58,020	
Inventories and other contract costs[22, 23]	9	253,389		218,073	
Contract assets[25, 27]		11,299		23,338	
Trade and other receivables[27]	10	69,044		62,877	
Cash and cash equivalents	11	73,783		105,088	
		465,691		467,396	
Current liabilities[24]					
Trade and other payables	12	147,741		144,058	
Contract liabilities [25]		8,585		7,173	
Bank loans and overdrafts		37,651		40,314	
Lease liabilities[26]	2(d)	19,583		987	
Current taxation		3,360		7,244	
Provisions		10,460		9,410	
		227,380		209,186	
Net current assets			238,311		258,210
Total assets less current liabilities			667,782		595,782
Non-current liabilities[24]					
Interest-bearing borrowings		70,621		72,251	
Lease liabilities[26]	2(d)	53,603		7,547	
Net defined benefit retirement obligation		3,540		3,210	
Deferred tax liabilities		16,655		13,850	
Provisions		11,695		11,251	
			156,114		108,109
NET ASSETS			511,668		487,673

	Note	At 30 June 2019	At 31 December 2018 (Note)[8]
		$'000	$'000
CAPITAL AND RESERVES			
Share capital	13(b)	175,000	175,000
Reserves		259,612	240,825
Total equity attributable to equity shareholders of the company		434,612	415,825
Non-controlling interests		77,056	71,848
TOTAL EQUITY		511,668	487,673

CP

Note:
The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2[8].

The notes on pages 26 to 65 form part of this interim financial report.

HKAS 1.10

[18] 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)

[19] 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

[20] 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

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

HKAS 1.29-30A, 55, 77

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

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

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.

HKAS 1.29, 60, 66

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

In this illustration HK Listco has presented the capitalised costs as current assets as HK Listco's capitalised costs relate to the sale of specific properties to be recognised during HK Listco's normal operating cycle and satisfy the criteria set out in HKAS 1.66 for classification as a current asset. As mentioned in footnote 22, 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.

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

HKAS 1.60 & 64

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

HKFRS 15.105,109
HKAS 1.60, 66, 69

25 HKFRS 15 does not specify whether entities are required to present their contract assets and contract liabilities as separate line items or how to classify them as current or non-current in the statement of financial position. Entities should therefore apply general principles in HKAS 1 for presenting and classifying contract assets and contract liabilities. Also, while HKFRS 15 uses the terms "contract assets" and "contract liabilities", entities are not prohibited from using alternative terms to describe contract assets and contract liabilities in their statements of financial position, provided that the entities give sufficient information to the users to distinguish these amounts from receivables and payables, as they are different in nature (see footnote 27 for distinction between contract assets and receivables).

In this illustration, it is assumed that HK Listco determines that contract assets and contract liabilities are individually sufficiently material and it therefore separately presents them in the statement of financial position. It is also assumed that HK Listco has 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.

HKFRS 16.47 [26] 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 [27] 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) [28] Both the MBLRs and HKAS 34 are not explicit as to the extent of disclosure that should be made in the statement of changes in equity presented in an interim financial report. In particular, they are not explicit as to whether a reconciliation of all changes of each component of equity is required. In this illustrative interim financial report, the same level of detail is shown as that which is shown in the annual financial statements, for ease of comparison.

HKAS 34.28 Where the interim financial report is prepared using new policies or the entity entered into new or significant transactions during the interim period, management should also consider how they would reflect these in the statement of changes in equity in a full set of financial statements and make adjustments to the interim statement of changes in equity accordingly.

HKAS 1.54(q) & 106(a) [29] 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 [30] 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) [31] 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 2019, the comparatives in the statement of changes in equity should, at a minimum, cover the six month period ended 30 June 2018. 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 2018) 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 2018). This is particularly useful where there have been changes in accounting policies which have resulted in adjustments.

In this illustration, HK Listco has initially applied HKFRS 16 using the modified retrospective approach and used Method 2 as described in HKFRS 16.C8(b)(ii) to measure the right-of-use assets at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018, for all leases previously classified as operating leases under HKAS 17 which are required to be capitalised at the date of transition to HKFRS 16 (see footnote 54). Therefore, the adoption of HKFRS 16 does not result in an adjustment to the opening balance of equity at 1 January 2019. Entities that have made an adjustment to the opening balance of equity may refer to our 2018 edition of illustrative interim financial report under Hong Kong Financial Reporting Standards for an example of presentation of adjustments to opening balances in the statement of changes in equity.

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

Consolidated statement of changes in equity[28, 29, 30] for the six months ended 30 June 2019 - unaudited[7]

(Expressed in Hong Kong dollars)

		Attributable to equity shareholders of the company									
	Note	Share capital	Capital reserve	Exchange reserves	Property revaluation reserve	Hedging reserve	Fair value reserve (non-recycling)[17]	Retained profits	Total	Non-controlling interests	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2018		175,000	134	1,020	2,251	2,823	85	201,971	383,284	61,681	444,965
Changes in equity for the six months ended 30 June 2018:											
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[15] to initial carrying amount of hedged items		-	-	-	-	(90)	-	-	(90)	-	(90)
Dividends approved in respect of the previous years	13(a)	-	-	-	-	-	-	(45,000)	(45,000)	-	(45,000)
Balance at 30 June 2018 and 1 July 2018		175,000	134	1,442	5,667	2,601	110	205,054	390,008	66,765	456,773
Changes in equity for the six months ended 31 December 2018[31]:											
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[15] to initial carrying amount of hedged items		-	-	-	-	(91)	-	-	(91)	-	(91)
Equity settled share-based transactions	13(d)	-	1,625	-	-	-	-	-	1,625	-	1,625
Dividends declared in respect of the current year	13(a)	-	-	-	-	-	-	(27,000)	(27,000)	-	(27,000)
Balance at 31 December 2018 (Note)[8]		175,000	1,759	1,848	8,563	2,378	135	226,142	415,825	71,848	487,673

CP Note: The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2[8].

	Note	Attributable to equity shareholders of the company									
		Share capital	Capital reserve	Exchange reserves	Property revaluation reserve	Hedging reserve	Fair value reserve (non-recycling)[17]	Retained profits	Total	Non-controlling interests	Total equity
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2019[31]		175,000	1,759	1,848	8,563	2,378	135	226,142	415,825	71,848	487,673
Changes in equity for the six months ended 30 June 2019:											
Profit for the period		-	-	-	-	-	-	58,174	58,174	5,208	63,382
Other comprehensive income		-	-	(1,518)	13,618	(142)	25	-	11,983	-	11,983
Total comprehensive income		-	-	(1,518)	13,618	(142)	25	58,174	70,157	5,208	75,365
Amounts transferred from hedging reserve to initial carrying amount of hedged items		-	-	-	-	(98)	-	-	(98)	-	(98)
Dividends approved in respect of the previous year	13a)	-	-	-	-	-	-	(49,500)	(49,500)	-	(49,500)
Purchase of own shares	13(c)	-	-	-	-	-	-	(3,330)	(3,330)	-	(3,330)
Equity settled share-based transactions	13(d)	-	1,558	-	-	-	-	-	1,558	-	1,558
Balance at 30 June 2019		175,000	3,317	330	22,181	2,138	160	231,486	434,612	77,056	511,668

The notes on pages 26 to 65 form part of this interim financial report.

HKAS 34.8(d), 20(d),

Condensed consolidated cash flow statement[32, 34] for the six months ended 30 June 2019 – unaudited[7]

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2019 $'000	2018 (Note)[8] $'000
Operating activities			
Cash generated from operations[33]		69,645	47,756
Tax paid		(14,927)	(12,650)
Net cash generated from operating activities		54,718	35,106
Investing activities			
Payment for the purchase of property, plant and equipment[32, 33]		(6,816)	(6,353)
Other cash flows arising from investing activities		(5,024)	(5,567)
Net cash used in investing activities		(11,840)	(11,920)
Financing activities			
Capital element of lease rentals paid[32, 33]		(7,606)	(400)
Interest element of lease rentals paid[32, 33]		(2,437)	(222)
Dividends paid to equity shareholders of the company[32]		(49,500)	(45,000)
Other cash flows arising from financing activities		(11,595)	(5,968)
Net cash used in financing activities		(71,138)	(51,590)
Net decrease in cash and cash equivalents		(28,260)	(28,404)
Cash and cash equivalents at 1 January		102,299	122,650
Effect of foreign exchanges rates changes		(1,624)	763
Cash and cash equivalents at 30 June	11	72,415	95,009

CP

Note:
The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2[8].

The notes on pages 26 to 65 form part of this interim financial report.

HKAS 34.10

[32] 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)

33 The adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases (as explained below). In this illustration, HK Listco determines that cash flow line items in relation to leases are relevant in understanding the impact of adoption of HKFRS 16 on the group's cash flow and therefore separately presents them in the condensed consolidated cash flow statement.

As explained in note 2 to these illustrative interim financial statements, under HKFRS 16 the accounting for most leases previously classified as operating leases must change to be consistent with the accounting adopted for finance leases i.e. the lease must be capitalized by recognizing a right-of-use asset and a lease liability. This fundamental change in accounting for operating leases extends to the cash flow statement. Consequently, once HKFRS 16 is adopted, the cash outflows relating to most leases previously classified as operating leases are required to be shown as interest paid and financing repayments, to be consistent with the new policy adopted in the statement of financial position for these leases.

The only exceptions are as follows:

- Variable lease payments that do not depend on an index or rate (such as turnover rent), rentals under short term leases and/or for low-value assets which are expensed on a systematic basis under the recognition exemptions in HKFRS 16.5-6 or HKFRS 16.C10(c): these payments should continue to be classified as operating cash outflows; and

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

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

CP

34 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[35,36]

(Expressed in Hong Kong dollars unless otherwise indicated)[37]

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)[38,]. It was authorised for issue on 25 August 2019[39].

HKAS 34.5-25 [35] 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 [36] 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 [37] Generally, interim financial reports should be prepared using a consistent level of precision. That is, if the primary statements are presented in, for example, round thousands, then any note disclosures which support the primary statements, such as further analyses of income statement or balance sheet captions, would also generally be presented in round thousand amounts, so as to exactly reconcile to the amounts disclosed in the primary statements. However, occasionally it may be appropriate to present specific items of information in the interim financial report using different levels of precision from that used generally. An example of such disclosure is in note 16 to this illustrative interim financial report where HK Listco discloses the estimated financial effect of a contingent liability in $millions due to the uncertainties involved in estimating the outcome. In such case, the level of precision used should be clearly disclosed and care should be taken to ensure that material information is not omitted.

HKAS 34.19, 7 & 9 [38] 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 [39] As with annual financial statements, it is important for users to know when an interim financial report was authorised for issue, as the interim financial report does not reflect events after this date. Accordingly, although not mandatory, we recommend entities disclose such information.

HKAS 34.16A(a)
A16(38)

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

CP

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

CP

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2018 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.[38]

A16(43)
CP

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 66.

S436

The financial information relating to the financial year ended 31 December 2018 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)[40] is as follows:

The company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

S436

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

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

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

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

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

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

2 CHANGES IN ACCOUNTING POLICIES[41, 42, 43, 44]

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases,* and a number of amendments to HKFRSs that are first effective for the current accounting period of the group.

Except for HKFRS 16, *Leases*, none of the 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.

A16(37): Note 37.2

[41] 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

[42] 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 2019 edition of Illustrative annual financial statements under Hong Kong Financial Reporting Standards for details of the requirements applicable to the annual financial statements in this regard).

In this illustration, HK Listco's accounting policies in respect of leases have been changed as a result of applying HKFRS 16 for the first time in this interim period. While HKFRS 16 contains specific transitional disclosures that are required in a full set of financial statements, those transitional disclosure requirements do not explicitly apply to condensed interim financial statements. Entities should apply judgement in determining whether some of the transitional disclosures required by HKFRS 16, as well as the general disclosures required by HKAS 8, will be relevant to the understanding of changes in accounting policies in the interim period.

In this illustration, HK Listco has disclosed a detailed explanation of the changes in accounting policies with a summary of opening balance adjustments made upon the initial adoption of HKFRS 16 in note 2.

HKFRS 9.7.2.21, 22 & 26

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

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

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

[44] 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.

In this illustration, it is assumed that in common with most entities HK Listco early adopted the amendments to HKFRS 9, *Prepayment features with negative compensation*, at the same time as HKFRS 9 in its 2018 annual financial statements. The amendments are mandatory for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The amendments are required to be applied retrospectively. If an entity adopts the amendments to HKFRS 9 for the first time in 2019 and the adoption has a material impact on the financial statements, care should be taken to tailor the disclosure to suit the entity's circumstances.

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

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

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

- HKFRS 16, *Leases*
- Amendments to HKAS 19, *Plan amendment, curtailment or settlement*
- Amendments to HKAS 28, *Long-term interests in associates and joint ventures*
- Annual improvement to HKFRSs 2015-2017 Cycle
- HK(IFRIC) 23, *Uncertainty over income tax treatments*
- …

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."

HKFRS 16, *Leases*[45]

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease,* HK(SIC) 15*, Operating leases – incentives,* and HK(SIC) 27*, Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16.C5(b) & C7

The group has initially applied HKFRS 16 as from 1 January 2019. The group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019[46]. Comparative information has not been restated and continues to be reported under HKAS 17.

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

(a) Changes in the accounting policies

(i) New definition of a lease

HKFRS 16.9-10 & B9

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

HKFRS 16.11 & C3-C4

The group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

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[45] While HKFRS 16 introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity, these disclosure requirements in HKFRS 16 are not specifically applicable to condensed interim financial statements.

HKAS 34.15, 15C, 16A(a)

However, entities should bear in mind the disclosure objective in HKAS 34, which is to explain events and transactions that are significant to an understanding of the changes in financial position and performance since the end of the last annual reporting period. Entities therefore should exercise judgement based on their facts and circumstances to determine whether the disclosures in HKFRS 16 need to be provided in the interim financial statements in order to meet the objective of HKAS 34.

In this illustration, it is assumed that HK Listco entered into a number of lease agreements for use of warehouses, retail stores and machinery. These leasing activities are significant to an understanding of the changes in financial position and performance since the end of the last annual reporting period. Accordingly, a detailed explanation of the changes of accounting policies with a summary of opening balance adjustments made upon the initial adoption of HKFRS 16 is provided in note 2 and note 8 has been expanded to provide an update about these leasing activities during the interim reporting period.

HKFRS 16.C5 & C13

[46] HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. An entity can elect to adopt the new standard (1) retrospectively (full retrospective approach), or (2) from the beginning of the year of initial application with no restatement of comparative information (modified retrospective approach), with or without the use of optional practical expedients. If the entity applies one or more practical expedients, then it needs to disclose the expedients that have been used.

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets[47]. As far as the group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 15(b).

HKFRS 16.5-8, 60

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

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

A "short-term lease" is a lease that, at the commencement date, has a lease term of 12 months or less and does not contain a purchase option. The election for short-term leases for exemption from HKFRS 16 requirements shall be made by class of underlying asset to which the right of use relates. Under HKFRS 16.7, if a lease which has been classified as a short-term lease is extended, then the remaining period of the extended lease will only qualify for the short-term exemption if the new lease term, when measured as from the effective date of the modification, does not exceed 12 months. The "effective date of the modification" is defined in Appendix A to HKFRS 16 as the date when both parties agree to the modification. For example, on 1 November 2019 an entity agrees with the lessor to extend a 12 month lease, which was due to expire on 31 December 2019, for a further 6 months to 30 June 2020. In this case, the relevant period for assessing the modified lease is 8 months (1 November 2019 to 30 June 2020), and the lease can continue to qualify for the short term exemption. However, if this same lease was extended instead for a further 12 months such that it expires on 31 December 2020, then this extended lease would fail to qualify for the exemption as from 1 November 2019, as the relevant period of time would be 14 months, counted as from that date.

HKFRS 16.B3-B4

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

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

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

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

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

So far as interim financial statements are concerned, the above disclosures are not specifically required, entities should apply judgement to determine whether these amounts need to be disclosed (see footnote 45).

Where the contract contains lease component(s) and non-lease component(s), the group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases [other than … *name any specific class of underlying asset to which this practical expedient does not apply*][48].

When the group enters into a lease in respect of a low-value asset, the group decides whether to capitalise the lease on a lease-by-lease basis. For the group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

HKFRS 16.12-13 & 15

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

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

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

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

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

Entities should therefore consider carefully the impact of taking or not taking advantage of the practical expedient on a class-by-class basis when determining their accounting policies on adoption of HKFRS 16. Although not required, as this should be a class-by-class decision, it is best practice to explain in the policy note the situations in which the entity would or would not take advantage of the practical expedient.

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

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

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

HKFRS 16.34-35

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses, except for the following types of right-of-use asset[49]:

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

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

HKFRS 16.34-35 [49] HKFRS 16.34-35 state that a lessee applies an alternative measurement basis in the following circumstances:

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

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

HKFRS 16 does not explicitly refer to the situation when the leased asset is being held as inventory, such as in the case of leasehold land held by a property developer in Hong Kong. However, consistent with the approach taken to the subsequent measurement of other right-of-use assets with reference to their use in the business, in our view when leased assets are held as part of inventory for sale in the ordinary course of business, then the relevant financial reporting standard for subsequent measurement would be HKAS 2 *Inventories*, as discussed further in footnote 101 of the December 2019 edition of *Illustrative annual financial statements under Hong Kong Financial Reporting Standards*.

HKFRS 16.C9(b) (iii) Leasehold investment property[50]

Under HKFRS 16, the group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and / or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the group's financial statements as the group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

(iv) Lessor accounting

In addition to leasing out the investment property referred to in paragraph (a)(iii) above, the group leases out a number of items of machinery as the lessor of operating leases. The accounting policies applicable to the group as a lessor remain substantially unchanged from those under HKAS 17.

Under HKFRS 16, when the group acts as an intermediate lessor in a sublease arrangement, the group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the group's financial statements in this regard.

HKFRS 16.34 & C9(c), HKAS 40.5, 41

[50] HKFRS 16 amends the scope of HKAS 40 by defining investment property to include both owned investment property and investment property held by a lessee as a right-of-use asset ("leasehold IP"). As a result, an entity is required to follow its HKAS 40 accounting policy choice, either the fair value model or the cost model, for all of its leasehold IP.

This accounting change will have most impact on those entities which adopted the fair value model for investment properties but which in the past did not elect to apply HKAS 40 to any of its leasehold investment properties (such election was permitted to be made on a property-by-property basis). In this case, on transition to HKFRS 16, the lessee is required to re-measure the leasehold IP to its fair value based on the remaining leasehold interest and the lease liability (if any) under the applicable transition requirements of HKFRS 16, with the net change recognised as an adjustment to the opening balance of equity.

(b) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies[51]

(i) Classification of interest in leasehold land and buildings held for own use[52]

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

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

HKAS 1.122-133

[51] HKAS 1 requires an entity to disclose (i) the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements; and (ii) the assumptions concerning the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year (see footnotes 108 and 109 of the December 2019 edition of Illustrative annual financial statements under Hong Kong Financial Reporting Standards for more discussion of the HKAS 1 requirements).

Although not explicitly required, it is useful to provide the disclosure as required by paragraphs 122 and 125 of HKAS 1 when there are significant judgements and/or estimation uncertainty involved in applying the newly adopted accounting policies. As illustrated here, this disclosure extends the more generic policy descriptions that are found in note 2(a) to explain, how, in particular circumstances, those policies were applied during the period. Management will need to exercise judgement in determining which such circumstances warrant additional disclosure and may need to update the disclosure from one year to the next.

HKFRS 16.35, HKAS 34.C7

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

(ii) Determining the lease term

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

(c) Transitional impact

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was [•].

HKFRS 16.C12(a)

HKFRS 16.C10(a)-(c), C13

To ease the transition to HKFRS 16, the group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as disclosed in note 15(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:[53]

HKFRS 16.C12(b)

[53] Under the modified retrospective approach, a lessee is required to disclose an explanation of any difference between:
- operating lease commitments disclosed applying HKAS 17 at the end of the annual reporting period immediately preceding the date of initial application; and
- lease liabilities recognised in the statement of financial position at the date of initial application.

Although there is no specific requirement to include this explanation in the interim financial report, users may find this information relevant in understanding the nature and the impact of the changes in accounting policies.

In addition, rather than providing narrative explanation about the differences, entities may find it simpler to provide a reconciliation of the operating lease commitments and opening lease liabilities, as is illustrated here, to satisfy the transition disclosure requirement. Such reconciliation is not required and other approaches may be acceptable, provided that the explanation is provided.

HKFRS 16.C12(b)

	1 January 2019 $'000
Operating lease commitments at 31 December 2018	71,820
Less: commitments relating to leases exempt from capitalisation:	
- short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(600)
- leases of low-value assets	(6,720)
Add: lease payments for the additional periods where the group considers it reasonably certain that it will exercise the extension options	4,500
	69,000
Less: total future interest expenses	(9,061)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	59,939
Add: finance lease liabilities recognised as at 31 December 2018	8,534
Total lease liabilities recognised at 1 January 2019	68,473

HKFRS 16.C8(b)(ii)

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018[54].

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

HKFRS 16.C8(b) [54] Under the modified retrospective approach, a lessee can measure the right-of-use assets, on a lease-by-lease basis, using either of the following two methods:

- Method 1: as if HKFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of HKFRS 16); or
- Method 2: at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments related to that lease recognised in the statement of financial position immediately before the date of initial application.

Method 2 is the short-cut method, compared to Method 1, as there is no need to separately compute the depreciated carrying value of the right-of-use asset using historical information. In this illustration, HK Listco applied Method 2 to all leases previously classified as operating leases under HKAS 17 which were capitalised at the date of transition to HKFRS 16.

HKFRS 16.C10(d) & (e)

If the entity has applied Method 1 to measure the right-of-use asset recognised at the date of initial application, two more practical expedients are available to ease the transition to HKFRS 16:
- a lessee may exclude the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- a lessee may use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Under Method 1, any difference between the right-of-use asset recognised and the lease liability is recognised as an adjustment to the opening balance of equity at the date of initial application of HKFRS 16.

It should also be noted that regardless of whether Method 1 or Method 2 is used, care needs to be taken to identify all the adjustments required to the statement of financial position at the date of transition to HKFRS 16 in respect of these leases, to eliminate prepayments and accrued lease expenses previously recognised under HKAS 17.

The group presents right-of-use assets that do not meet the definition of investment property in 'other property, plant and equipment' and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of HKFRS 16 on the group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 $'000	Capitalisation of operating lease contracts $'000	Carrying amount at 1 January 2019 $'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	141,882	59,439	201,321
Total non-current assets	**337,572**	**59,439**	**397,011**
Trade and other payables	144,058	(500)	143,558
Lease liabilities (current)	987	14,284	15,271
Current liabilities	**209,186**	**13,784**	**222,970**
Net current assets	**258,210**	**(13,784)**	**244,426**
Total assets less current liabilities	**595,782**	**45,655**	**641,437**
Lease liabilities (non-current)	7,547	45,655	53,202
Total non-current liabilities	**108,109**	**45,655**	**153,764**
Net assets	**487,673**	**-**	**487,673**

The analysis of the net book value of the group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

	At 30 June 2019 $'000	At 1 January 2019 $'000
Included in "Other property, plant and equipment":		
Ownership interests in leasehold land and buildings held for own use, carried at fair value	71,266	57,648
Other properties leased for own use, carried at depreciated cost	47,576	43,687
Plant, machinery and equipment, carried at depreciated cost	23,608	24,727
	142,450	126,062
Ownership interests in leasehold investment properties, carried at fair value	75,820	66,690
	218,270	192,752

(d) Lease liabilities

The remaining contractual maturities of the group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	$'000	$'000	$'000	$'000
Within 1 year	19,583	20,207	15,271	15,766
After 1 year but within 2 years	21,140	23,239	15,289	16,880
After 2 years but within 5 years	28,915	35,324	34,501	42,674
After 5 years	3,548	6,414	3,412	6,414
	53,603	64,977	53,202	65,968
	73,186	85,184	68,473	81,734
Less: total future interest expenses		(11,998)		(13,261)
Present value of lease liabilities		73,186		68,473

(e) Impact on the financial result, segment results and cash flows of the group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of HKFRS 16 on the group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply to 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.[55]

	2019				2018
	Amounts reported under HKFRS 16 (A) $'000	Add back: HKFRS 16 depreciation and interest expense (B) $'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) $'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) $'000	Compared to amounts reported for 2018 under HKAS 17 $'000
Financial result for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	**84,765**	**8,315**	**(9,510)**	**83,570**	**68,790**
Finance costs	(10,366)	2,096	-	(8,270)	(6,345)
Profit before taxation	**76,984**	**10,411**	**(9,510)**	**77,885**	**63,835**
Profit for the year	**63,382**	**10,411**	**(9,510)**	**64,283**	**53,167**
Reportable segment profit (adjusted EBITDA) for the six months ended 30 June 2019 (note 3(b)) impacted by the adoption of HKFRS 16:					
- **Electronics - Hong Kong**	**54,622**	**-**	**(6,900)**	**47,722**	**42,705**
- **Property development**	**19,997**	**-**	**(2,610)**	**17,387**	**19,997**
- **Total**	**114,896**	**-**	**(9,510)**	**105,386**	**89,395**

HKFRS 16.C12

[55] Under the modified retrospective approach, a lessee is not required to disclose information specified in paragraph 28(f) of HKAS 8, i.e. the amount of the adjustment for each financial statement line item affected and, if HKAS 33 *Earnings per share* applies to the entity, for basic and diluted earnings per share for the current period and each prior period presented.

However, as the impact on certain line items on the statement of profit or loss and cash flow statement is so significant, although not specifically required by HKFRS, it would be informative to analyse these changes as a result of the adoption of HKFRS 16.

	2019			2018
	Amounts reported under HKFRS 16 (A) $'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) $'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) $'000	Compared to amounts reported under HKAS 17 $'000
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	69,645	(9,510)	60,135	47,756
Net cash generated from operating activities	**54,718**	**(9,510)**	**45,208**	**35,106**
Capital element of lease rentals paid	(7,606)	7,414	(192)	(400)
Interest element of lease rentals paid	(2,437)	2,096	(341)	(222)
Net cash used in financing activities	**(71,138)**	**9,510**	**(61,628)**	**(51,590)**

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

[Or describe any other effects of adopting HKFRS 16 as appropriate.]

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

3 REVENUE AND SEGMENT REPORTING[56]

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[57]

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	
	2019	2018
	$'000	$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products of service lines		
- Sales of electronic products	472,888	420,219
- Sales of completed properties	52,597	60,383
- Revenue from construction contracts	12,696	8,913
	538,181	489,515
Revenue from other sources		
- Gross rentals from investment properties	4,267	3,105
	542,448	492,620
Disaggregated by geographical location of customers		
- Hong Kong (place of domicile)	383,542	352,253
- Mainland China	875	610
- United States	64,764	50,300
- Singapore	21,734	11,087
- Malaysia	16,296	7,865
- Germany	17,634	22,725
- France	9,387	14,615
- Other countries	28,216	33,165
	158,906	140,367
	542,448	492,620

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 2019 of $3,897,000 (six months ended 30 June 2018: $2,797,000) and $370,000 (six months ended 30 June 2018: $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)

[56] 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 110, 112, 115, 116 and 120-131 of the December 2019 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 HKFRS 15.114 and the revenue information disclosed for each reportable segment (see footnote 57 for further details).

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

57 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 HKFRS 15.114 for disaggregation of revenue. Others may meet the objective by using only one type of category.

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

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

In these illustrative interim financial statements, 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.

		Electronics – Hong Kong		Electronics – South East Asia		Electronics – Rest of the world		Property development		Construction contracts		Property leasing		Total	
	For the six months ended	2019	2018 (Note)	2019	2018	2019	2018	2019	2018 (Note)	2019	2018	2019	2018	2019	2018 (Note)
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
HKAS 34.16A(l)	**Disaggregated by timing of revenue recognition[57]**														
	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)	**Revenue from external customers**	**305,218**	**264,188**	**67,670**	**55,225**	**100,000**	**100,806**	**52,597**	**60,383**	**12,696**	**8,913**	**4,267**	**3,105**	**542,448**	**492,620**
HKAS 34.16A(g)(ii)	Inter-segment revenue	52,055	51,953	625	464	-	-	-	-	-	-	-	-	52,680	52,417
	Reportable segment revenue	**357,273**	**316,141**	**68,295**	**55,689**	**100,000**	**100,806**	**52,597**	**60,383**	**12,696**	**8,913**	**4,267**	**3,105**	**595,128**	**545,037**
HKAS 34.16A(g)(iii)	**Reportable segment profit (adjusted EBITDA)**	54,622	42,705	10,448	9,424	14,628	13,193	19,997	16,645	2,491	1,581	12,710	5,847	114,896	89,395
	Impairment of plant and machinery	-	-	-	-	-	-	(1,200)	-	-	-	-	-	(1,200)	-
	As at 30 June / 31 December														
HKAS 34.16A(g)(iv)	**Reportable segment assets**	334,480	279,421	60,177	56,900	84,292	81,050	153,128	133,386	55,700	58,540	78,057	69,036	765,834	678,333
HKAS 34.16A(g)(iv)	**Reportable segment liabilities**	190,520	142,104	46,848	44,617	30,670	29,490	64,261	50,510	570	1,067	10,160	10,164	343,029	277,952

Note: The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2[8].

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

(c) Reconciliations of reportable segment profit or loss

HKAS 34.16A(g)(vi)

	Six months ended 30 June	
	2019	2018 (Note)[8]
	$'000	$'000
Reportable segment profit	114,896	89,395
Elimination of inter-segment profits	(13,170)	(13,103)
Reportable segment profit derived from group's external customers and joint venture	101,726	76,292
Share of profits less losses of associates	2,250	1,322
Other income	8,404	7,081
Depreciation and amortisation	(16,937)	(7,614)
Finance costs	(10,366)	(6,345)
Impairment losses on non-current assets	(1,200)	-
Unallocated head office and corporate expenses	(6,893)	(6,901)
Consolidated profit before taxation	76,984	63,835

Note:
The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2[8].

HKAS 34.16A(b)

4 SEASONALITY OF OPERATIONS[58]

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 2019, the Electronics division reported revenue of $998,204,000 (twelve months ended 30 June 2018: $852,306,000), and gross profit of $252,311,000 (twelve months ended 30 June 2018: $214,459,000).

HKAS 34.16A(b) & 21

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

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

5 PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2019	2018 (Note)[8]
		$'000	$'000
(a)	**Finance costs**		
	Interest on bank loans and other borrowings	9,130	7,138
	Interest on lease liabilities	2,437	222
	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	7,900
	Interest accrued on advance payments from customers	443	233
	Less: interest expense capitalised into properties under development	(2,331)	(1,748)
		10,415	6,385
	Interest-rate swap: cash flow hedges, reclassified from equity	(49)	(40)
		10,366	6,345

		Six months ended 30 June	
		2019	2018 (Note)[8]
		$'000	$'000
(b)	**Other items**		
	Amortisation	1,508	918
	Depreciation charge		
	- owned property, plant and equipment	5,520	5,467
	- right-of-use assets	9,909	1,229
	Research and development costs (other than amortisation)	2,780	2,400
HKAS 34.15B(b)	Impairment losses		
	- trade and other receivables and contract assets[59]	850	680
	- 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 realised and unrealised gains on trading securities	(4,296)	(2,140)
	Net realised and unrealised gains on investments not held for trading	(653)	-

Note:
The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2[8].

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

[59] In addition to the requirements of the disclosure of disaggregation of revenue from contracts with customers and relationship between the disclosures of disaggregation of revenue from contracts with customers and revenue information that is disclosed for each reportable segments (if the entity applies HKFRS 8) as explained in footnote 57, HKAS 34 also explicitly requires the disclosure of impairment loss recognised or reversed in relation to assets arising from contracts with customers, if it is significant.

6 INCOME TAX

	Six months ended 30 June	
	2019	2018
	$'000	$'000
Current tax - Hong Kong Profits Tax	7,261	7,299
Current tax - Overseas	4,076	3,452
Deferred taxation	2,265	(83)
	13,602	10,668

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2018: 16.5%) to the six months ended 30 June 2019, except for one subsidiary of the group which is a qualifying corporation under the two-tiered Profits Tax rate regime[60].

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 2018.

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

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

7 EARNINGS PER SHARE

(a) Basic earnings per share

CP

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of $58,174,000 (six months ended 30 June 2018: $48,083,000) and the weighted average of 99,724,000 ordinary shares (2018: 100,000,000 shares, after adjusting for the bonus issue in 2019)[61] in issue during the interim period.

(b) Diluted earnings per share

CP

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the parent of $58,437,000 (six months ended 30 June 2018: $48,345,000) and the weighted average number of ordinary shares of 100,510,000 (2018: 100,500,000 shares, after adjusting for the bonus issue in 2019[61]).

HKAS 33.26-27, 64

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

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

8 INVESTMENT PROPERTIES AND OTHER PROPERTY, PLANT AND EQUIPMENT

HKAS 34.15

(a) Right-of-use assets

As discussed in note 2, the group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. In addition, the depreciated carrying amount of the finance leased assets which were previously included in other property, plant and equipment is also identified as right-of-use assets. Further details on the net book value of the group's right-of-use assets by class of underlying asset are set out in note 2.[8]

During the six months ended 30 June 2019, 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.

HKAS 34.15B(d)

(b) Acquisitions and disposals of owned assets

During the six months ended 30 June 2019, the group acquired items of plant and machinery with a cost of $6,816,000 (six months ended 30 June 2018: $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 2019 (six months ended 30 June 2018: $nil), resulting in a loss on disposal of $42,000 (six months ended 30 June 2018: $nil).

HKAS 34.15B(b)

(c) Impairment losses

During the six months ended 30 June 2019, a number of machines in the property development division were physically damaged. The group assessed the recoverable amounts of those machines and as a result the carrying amount of the machines was written down to their recoverable amount of $6,230,000[62]. An impairment loss of $1,200,000 was recognised in "Other operating expenses". The estimates of recoverable amount were based on the machines' fair values less costs of disposal, using market comparison approach by reference to recent sales price of similar assets within the same industry, adjusted for differences such as remaining useful lives[63]. The fair value on which the recoverable amount is based is categorised as a Level 3 measurement.

HKAS 34.15B

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

HKAS 36.130(e)&(f)

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

(d) Valuation[63]

The valuations of investment properties and land and buildings held for own use carried at fair value were updated at 30 June 2019 by the group's independent valuer using the same valuation techniques as were used by this valuer when carrying out the December 2018 valuations.

As a result of the update, a net gain of $9,130,000 (2018: $3,260,000), and deferred tax thereon of $1,479,000 (2018: $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 (2018: $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 2019, $1,500,000 (2018: $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

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

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

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

10 TRADE AND OTHER RECEIVABLES

A16(4)(2)(a)

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows[64]:

	At 30 June 2019 $'000	At 31 December 2018 $'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
Derivative financial instruments	2,257	3,613
Deposits and prepayments	455	190
	69,044	62,877

Trade debtors and bills receivable are due[65] within [•] days from the date of billing. Debtors with balances that are more than [•] months past due are requested to settle all outstanding balances before any further credit is granted.

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

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

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

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

11 CASH AND CASH EQUIVALENTS

	At 30 June 2019 $'000	At 31 December 2018 $'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:[64]

	At 30 June 2019 $'000	At 31 December 2018 $'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 (note)	366	504
Dividends payable on redeemable preference shares	100	100
Amounts due to ultimate holding company and fellow subsidiaries	8,000	8,700
Financial liabilities measured at amortised cost	147,444	143,807
Derivative financial instruments	290	243
Financial guarantees issued[66]	7	8
	147,741	144,058

Note:
On the date of transition to HKFRS 16, accrued lease payments of $500,000 previously included in "Other creditors and accrued charges" were adjusted to right-of-use assets recognised at 1 January 2019. See note 2[8].

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

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

	2019 $'000	2018 $'000
Interim dividend declared and paid after the interim period of 30 cents per share (2018: 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 2019 $'000	2018 $'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 2018: 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 2018. Dividends of $100,000 were recognised as an expense in finance costs for the six months ended 30 June 2019 (six months ended 30 June 2018: $100,000). Dividends of $100,000 were accrued but unpaid as at 30 June 2019 (31 December 2018: $100,000).

HKAS 34.16A(e)

(b) Bonus issue

On 8 January 2019, 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 2019	300,000	6.65	6.55	1,980
May 2019	200,000	6.80	6.70	1,350
				3,330

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid on the repurchased shares of $3,330,000 was paid wholly out of retained profits.[67]

(d) Equity settled share-based transactions

On 1 May 2019, 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 2018). Each option gives the holder the right to subscribe for one ordinary share of the company. These share options will vest on 30 April 2020, and then be exercisable until 2022. 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 2019 (2018: nil).

(e) Capital management

The group's primary objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and lease liabilities but excludes redeemable preference shares) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity and redeemable preference shares, other than amounts recognised in equity relating to cash flow hedges, less unaccrued proposed dividends.

The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the group recognizes right-of-use assets and corresponding lease liabilities for almost all leases previously accounted for as operating leases as from 1 January 2019. This caused a significant increase in the group's total debt and hence the group's adjusted net debt-to-capital ratio rose from 14% to 28% on 1 January 2019 when compared to its position as at 31 December 2018.

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[67] 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.

Considering the impact of the application of HKFRS 16, during 2019, the group reassessed the range at which it maintains its adjusted net debt-to-capital ratio to be [●]% to [●]% (2018: [●]% to [●]%). In order to maintain or adjust the ratio, the group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The group's adjusted net debt-to-capital ratio at the end of the current and previous reporting periods and at the date of transition to HKFRS 16 was as follows:

	Note	30 June 2019 $'000	1 January 2019 (Note) $'000	31 December 2018 (Note) $'000
Current liabilities:				
Bank loans and overdrafts		37,651	40,314	40,314
Lease liabilities		19,583	15,271	987
		57,234	55,585	41,301
Non-current liabilities:				
Interest-bearing borrowings		70,621	72,251	72,251
Lease liabilities		53,603	53,202	7,547
Total debt		181,458	181,038	121,099
Add: Proposed dividends	13(a)	29,910	49,500	49,500
Less: Cash and cash equivalents	11	(73,783)	(105,088)	(105,088)
Redeemable preference shares		(3,912)	(3,912)	(3,912)
Adjusted net debt		133,673	121,538	61,599
Total equity		511,668	487,673	487,673
Add: Redeemable preference shares		3,912	3,912	3,912
Less: Hedging reserve		(2,138)	(2,378)	(2,378)
Proposed dividends	13(a)	(29,910)	(49,500)	(49,500)
Adjusted capital		483,532	439,707	439,707
Adjusted net debt-to-capital ratio		28%	28%	14%

Note: The group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Under this approach, the comparative information is not restated. See note 2.[8]

HKFRS 13.91-92, 94-95 & 99

[68] HKAS 34.16A(j) requires entities to apply HKFRS 13.91-93(h), 94-96, 98 and 99 for disclosures about financial instruments which are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition. As explained in footnote 69 below, recurring fair value measurements arise from assets or liabilities measured on a fair value basis at each reporting date. All other measurements using fair value are "non-recurring".

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

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

The disclosure requirements (mostly in HKFRS 13.93) are different depending on whether the fair value measurement is recurring or non-recurring, and depending on which level of the 3-Level fair value hierarchy (as further discussed in footnote 70 below) that the financial assets or financial liabilities are categorised within. The most extensive requirements are for Level 3 measurements that are recurring.

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

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

HKFRS 13.93(a)

[69] 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

[70] 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[68]

HKFRS 13.93(a)& (b)

(i) Fair value hierarchy[70]

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[71].

		Fair value measurements as at 30 June 2019 categorised into		
	Fair value at 30 June 2019[72] $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement[69]				
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

[71] 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 2018[73] $'000	Fair value measurements as at 31 December 2018 categorised into		
		Level 1 $'000	Level 2 $'000	Level 3 $'000
Recurring fair value measurement[69]				
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 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: 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.[74]

HKFRS 13.93(a) & 94

72 For recurring and non-recurring fair value measurements, entities are required to disclose, for each class of assets and liabilities, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. As stated in HKFRS 13.94, class is determined based on the nature, characteristics and risks of the asset or liability; and the level of the fair value hierarchy within which the fair value measurement is categorised. So far as financial instruments are concerned, "classes" would be determined at a lower level than the measurement categories (i.e. amortised cost, fair value through profit or loss, fair value through other comprehensive income –recycling and non-recycling) in HKFRS 9 when the financial instruments within the same category have different nature, characteristics or risks. For example, in this illustrative interim financial report, the category "measured at fair value through profit or loss" is sub-divided into trading and non-trading securities.

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

HKFRS 13.C2&C3

73 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

74 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)

75 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[75]

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

The fair value of interest rate swaps is the estimated amount that the group would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties.

HKFRS 13.93(d)

(iii) Information about Level 3 fair value measurements[75]

	Valuation techniques	**Significant unobservable inputs**	**Range[76]**	**Weighted average[76]**
Unlisted equity instruments	Market comparable companies	Discount for lack of marketability	[●]% to [●]% (2018: [●]% to [●]%	[●]% (2018: [●]%)
Conversion option embedded in convertible notes	Binomial lattice model	Expected volatility	[●]% (2018: [●]%)	[●]% (2018: [●]%)

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 2019, 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 $[●] (2018: [●]%).

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[76] 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)

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

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

HKFRS 13.93(e) & 93(f)

[78] 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 2019, 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 $[●] (2018: [●]%).[77]

HKFRS 13.93(e)&(f)

The movement during the period in the balance of Level 3 fair value measurements is as follows:[78]

	At 30 June 2019	At 30 June 2018[79]
	$'000	$'000
Unlisted equity securities:		
At 1 January	4,950	4,800
Additional securities acquired	-	60
Net unrealised gains or losses recognised in other comprehensive income during the period	25	50
At 30 June	4,975	4,910
Conversion option embedded in convertible notes:		
At 1 January	171	169
Changes in fair value recognised in profit or loss during the period	27	2
At 30 June	198	171
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	27	2

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

[79] As discussed in footnote 73, 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 2018 to the balances at 30 June 2018). 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 2018 to the balances at 30 June 2018/1 July 2018, and then from the balances at 30 June 2018/1 July 2018 to 31 December 2018). 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.

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[80]

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 2018 and 30 June 2019 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	At 30 June 2019		At 31 December 2018	
	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

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

- when the carrying amount of an financial instrument is a reasonable approximation of fair value;
- for 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 HKFRS 13.97 in respect of this memorandum information are not required to be disclosed in the interim financial reports, as HKFRS 13.97 is omitted from the list in HKAS 34.16A(j).

HKAS 34.15B(e)

15 COMMITMENTS

(a) Capital commitments outstanding at 30 June 2019 not provided for in the interim financial report

	At 30 June 2019 $'000	At 31 December 2018 $'000
Contracted for	1,539	6,376
Authorised but not contracted for	12,500	660
	14,039	7,036

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Properties $'000	Others $'000
Within 1 year	10,200	6,330
After 1 year but within 5 years	40,800	14,490
After 5 years	-	-
	51,000	20,820

The group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. The group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

16 CONTINGENT ASSETS AND LIABILITIES

HKAS 34.15B(m)

In June 2019, 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[37]. 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 2019, the group entered into a three-year lease in respect of certain leasehold properties from a fellow subsidiary of the group for storage of electronic goods. The amount of rent payable by the group under the lease is $100,000 per month, which was determined with reference to amounts charged by the fellow subsidiary to third parties. At the commencement date of the lease, the group recognised a right-of-use asset and a lease liability of $3,303,000.

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 2019. Of the $100,000 owed by the debtor, the group expects to recover less than $10,000. No adjustment has been made in this interim financial report in this regard.

19 COMPARATIVE FIGURES[81]

The group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

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

HKSRE 2410.43(a) &(b)

CP

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

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

Introduction

HKSRE 2410.43(c)

We have reviewed the interim financial report set out on pages 14 to 65 which comprises the consolidated statement of financial position of HK Listco Ltd (the "company") as of 30 June 2019 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 2019 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 2019

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

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

Appendix
Recent HKFRS developments

This appendix lists the new Standards, amendments to, and Interpretations of, HKFRSs in issue as at 15 June 2019 which were not yet effective for the 2018 calendar year-ends and therefore may need to be considered for the first time in the preparation of the 2019 interim financial statements. The appendix contains two tables:

- Table 1 lists recent HKFRS developments which are required to be adopted in annual accounting periods beginning on or after 1 January 2019.
- Table 2 lists those developments which are available for early adoption in that period, but are not yet mandatory.

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

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

Effective date*	**Table 1: Amendments to HKFRSs first effective for annual periods beginning 1 January 2019**	
1 Jan 2019	HKFRS 16 "Leases"	In May 2016, the HKICPA issued HKFRS 16, *Leases*, which is equivalent to IFRS 16 issued by the IASB with the same effective date and transitional provisions. HKFRS 16 supersedes the previous accounting standard and interpretations on lease accounting (i.e. HKAS 17, HK(IFRIC)-Int 4, HK(SIC)-Int 15, HK(SIC)-Int 27 and HK-Int 4). The key objective of the new standard is to ensure that lessees recognise assets and liabilities arising from the commitments in the lease arrangements they have entered into. Therefore under HKFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability. The ROU asset represents the lessee's right to use the underlying asset for the lease term while lease liability represents its obligation to make lease payments. This on-balance sheet accounting model is similar to the previous finance lease accounting under HKAS 17. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets. When the practical expedient is applied, the lessee will recognise the lease payments as an expense on either a straight-line basis over the lease term or another systemic basis. Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. HKFRS 16 also introduces changes or new requirements to other areas of lease accounting, including lease definition, modification of a lease, sale and leaseback transactions, sublease and disclosures. A lessee may adopt HKFRS 16 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application (i.e. 1 January 2019 for entities with a calendar year-end), by adjusting opening balances at that date. Except for intermediate lessors in subleases, a lessor is not required to make any adjustments on transition and should apply HKFRS 16 from the date of initial application.

Effective date*	Table 1 (continued): Amendments to HKFRSs first effective for annual periods beginning 1 January 2019	
1 Jan 2019	Amendments to HKFRS 9, *Financial instruments* "Prepayment features with negative compensation"	The amendments apply only to financial assets which have prepayment features with negative compensation. They require entities to measure these financial assets at amortised cost or at fair value through other comprehensive income (depending on the business model under which the financial assets are managed) if certain criteria are met. Under the originally issued HKFRS 9 requirements, prepayment features with negative compensation would have resulted in a financial asset being classified as at fair value through profit or loss. Negative compensation arises when the party effecting the prepayment in effect receives a benefit from the other party (e.g. when the prepayment amount is based on the fair value of the loan at the date of prepayment which may be less than the amount that would have been repaid at maturity). The amendments are mandatory for annual periods beginning on or after 1 January 2019. We expect that most entities would have adopted these amendments at the same time as adopting HKFRS 9 in 2018. If an entity has not adopted the amendments at the same time as adopting HKFRS 9, it should follow the specific transition provisions in the amendments when it first applies the amendments in 2019.
1 Jan 2019	Amendments to HKAS 19, *Employee benefits* "Plan amendment, curtailment or settlement"	The amendments clarify that: • on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period; and • the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.
1 Jan 2019	Amendments to HKAS 28, *Investments in associates and joint ventures* "Long-term interest in associates and joint ventures"	The amendments primarily affect entities that finance their associates and joint ventures with preference shares or with loans for which repayment is not expected in the foreseeable future but which do not form part of the investor's equity investment (referred to as long-term interests or "LTI"). The amendments, which address equity-accounted loss absorption by LTI, state that LTI are in the scope of both HKFRS 9 and HKAS 28 and explain the annual sequence in which both standards are to be applied. In effect, this is a three-step annual process: 1. Apply HKFRS 9 independently, ignoring any prior years' loss absorption recognised in accordance with HKAS 28. 2. True-up prior years' HKAS 28 loss allocation in the current year, if any, as the carrying value of LTI may have changed after Step 1. This may involve recognising more prior years' losses, reversing these losses or reallocating them between different LTI instruments. 3. Allocate any current year's HKAS 28 losses to the extent that the remaining LTI balances allows. Any current year's HKAS 28 profits are allocated first to reverse any unrecognised prior years' losses and then to reverse allocations of losses previously recognised against LTI.

Effective date*	Table 1 (continued): Amendments to HKFRSs first effective for annual periods beginning 1 January 2019	
1 Jan 2019	HK(IFRIC) 23, "Uncertainty over income tax treatments"	This Interpretation provides guidance on how to apply HKAS 12, *Income taxes* when there is uncertainty over whether a tax treatment will be accepted by the tax authority. Under the Interpretation, the key test is whether it is probable that the tax authority will accept the entity's tax treatment: • If it is probable, then the entity should measure current and deferred tax consistently with the tax treatment in its tax return. • If it is not probable, then the entity should reflect the effect of uncertainty in its accounting for income tax by using the "expected value" approach or the "the most likely amount" approach – whichever better predicts the resolution of the uncertainty. In this case the tax amounts in the financial statements will not be the same as the amounts in the tax return.
1 Jan 2019	Annual Improvements to HKFRSs 2015-2017 Cycle - Amendments to HKFRS 3, *Business combinations* - Amendments to HKFRS 11, *Joint arrangements* - Amendments to HKAS 12, *Income taxes* - Amendments to HKAS 23, *Borrowing costs*	This cycle of annual improvements contains amendments to four standards, namely HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The amendments to HKFRS 3 and HKFRS 11 clarify whether the previously held interest in a joint operation, which is a business as defined in HKFRS 3, should be remeasured. The amendments clarify that: • The previously held interest in a joint operation is remeasured when a joint operator obtains *control* over the joint operation. • The previously held interest in a joint operation is not remeasured when an investor which participated in (but did not jointly control) the joint operation subsequently obtains *joint control*. The amendments to HKAS 12 clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) should be recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity. The amendments to HKAS 23 clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool.

[End of Table 1]

Effective date*	**Table 2:** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2019 but may be adopted early**	
1 Jan 2020	Amendments to HKFRS 3, *Business combinations* "Definition of a business"	The amendments: • clarify that a business must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; • remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; • add guidance and illustrative examples to help entities assess whether a substantive process has been acquired • narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and • add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Entities are required to apply the amendments to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.
1 Jan 2020	Amendments to HKAS 1, *Presentation of financial statements* and HKAS 8, *Accounting policies, changes in accounting estimates and errors* "Definition of material"	The amendments clarify the definition of "material" and its application by: • aligning the wording of the definition of "material" across all HKFRS Standards and the Conceptual Framework and making minor improvements to that wording; • incorporating supporting requirements in HKAS 1 into the definition to give them more prominence and clarify their applicability; and • clarifying the explanation accompanying the definition of material. The IASB expects the amendments will help companies make better materiality judgements without substantively changing existing requirements.
1 Jan 2021#	HKFRS 17 "Insurance contracts"	IFRS 17, which is the source of HKFRS 17, was issued by IASB on 18 May 2017 in order to set out a single principle-based standard for the recognition, measurement, presentation and disclosure of insurance contracts in the financial statements of the issuers of those contracts. IFRS 17 will replace IFRS 4, which was brought in as an interim standard in 2004 and is largely based on grandfathering previous local accounting policies. Similarly, HKFRS 17 will replace HKFRS 4, which is virtually identical to IFRS 4. # The IASB confirmed in its meeting held on 9 April 2019 that the effective date of IFRS 17 will be deferred by one year, i.e. the effective date will be annual periods beginning on or after 1 January 2022. We expect that in due course the HKICPA will follow the IASB's decision and defer the effective date of HKFRS 17 to annual periods beginning on or after 1 January 2022.

Effective date*	**Table 2 (continued):** **Amendments to HKFRSs which are not yet mandatory for annual periods beginning 1 January 2019 but may be adopted early**	
To be determined	Amendments to HKFRS 10, *Consolidated financial statements* and HKAS 28, *Investments in associates and joint ventures* "Sale or contribution of assets between an investor and its associate or joint venture"	The amendments introduce new requirements on loss of control over assets in a transaction with an associate or joint venture. These requirements require the full gain to be recognised when the assets transferred meet the definition of a "business" under HKFRS 3, *Business combination.* The amendments as originally issued had an effective date of annual periods beginning on or after 1 January 2016. In December 2015, the IASB decided to remove the effective date of the equivalent amendments to IFRS 10 and IAS 28 and indicated that the effective date will be determined when its research project on equity accounting is completed. The HKICPA followed the IASB's decision and indefinitely deferred the effective date of the amendments to HKFRS 10 and HKAS 28 accordingly.

[End of Table 2]

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