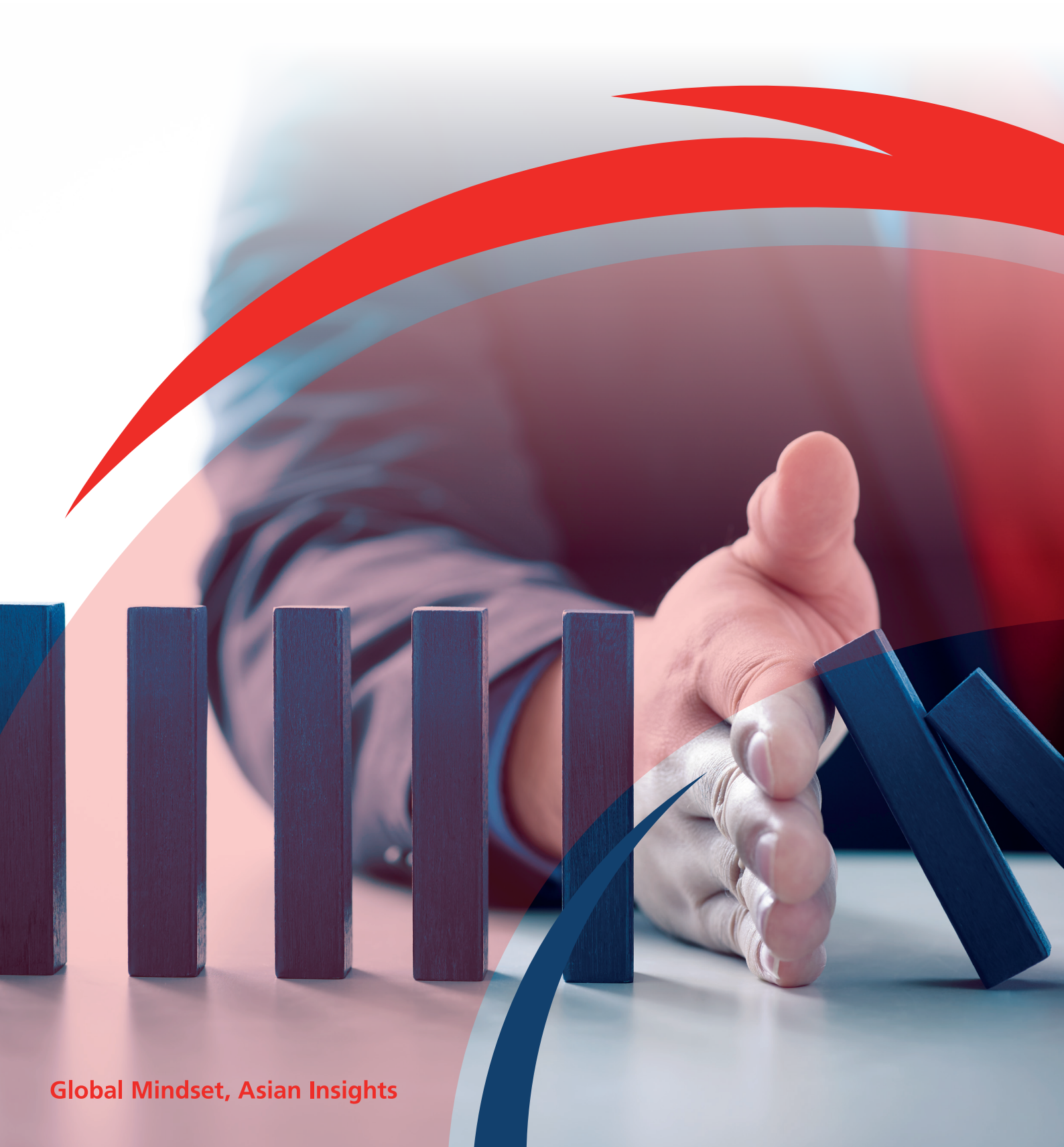


Illustrative Financial Statements 2018



Preface

About this publication:

This publication is an illustrative financial statements (IFS) of a Singapore-incorporated company, ABC Pte. Ltd., prepared in accordance with:

- Financial Reporting Standards in Singapore (FRSs)
- Singapore Companies Act, Chapter 50 (CA)

The IFS serve to provide an illustration of the annual financial statements of a company whose principal activities are those of trading. The disclosures contained in these IFS are made based on a hypothetical entity and certain assumptions have been made about the applicability of the disclosures required by FRSs.

The IFS are designed to capture a wide set of circumstances and transactions, and in enhancing the relevance of the IFS, all minimum disclosure requirements of FRSs are complied with, generally without considering materiality. Also, since the IFS are prepared based on a fictitious entity, assessing materiality is not possible in some circumstances. This set of IFS is a helpful enabler for entities preparing financial statements under FRSs, but its illustrative nature must be appreciated.

The names of people and entities included as illustrations are fictitious. Any resemblance to any person or business is purely coincidental.

This 2018 edition includes illustrations of disclosures which are effective for annual periods beginning on or after 1 January 2018.

To draw the attention of users to changes in this publication as compared to the 2017 edition, we have side-lined the new illustrations, disclosure requirements and other editorial changes in this manner.

Important notices:

- This publication is intended as an illustrative guide rather than a definitive statement.
- While the IFS contain most of the usual disclosures typically found in the financial statements of entities whose activities include trading, the disclosures and help tips in this publication are not meant to be exhaustive. Reference should be made to the relevant standards and regulations for specific disclosure requirements.
- This publication should not be relied upon as a substitute for seeking professional advice concerning the appropriate accounting treatment for specific individual situations or ensuring compliance with the FRSs and/or CA.

Abbreviations:

The following abbreviations are used in this publication:

ACRA	Accounting and Corporate Regulatory Authority
CA	Singapore Companies Act, Chapter 50
FRS	Financial Reporting Standard in Singapore
	– INT FRS Interpretations of FRS
	– FRS IE FRS Illustrative Examples
	– FRS IG FRS Implementation Guidance
ISCA	Institute of Singapore Chartered Accountants
SSA	Singapore Standard on Auditing

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ABC PTE. LTD.

**DIRECTORS' STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

CA 201: 16

The directors are pleased to present their statement to the members together with the audited financial statements of ABC Pte. Ltd. (the Company) for the financial year ended 31 December 2018.

1. Opinion of the directors

In the opinion of the directors,

CA Sch 12(1)(a)

(a) the financial statements of the Company are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and the financial performance, changes in equity and cash flows of the Company for the year then ended; and

CA Sch 12(1)(b)

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. Directors

CA Sch 12(7)

The directors of the Company in office at the date of this statement are:

Irene Lee
Nelson Ma
Steven Lee (Appointed on 31 March 2018)

3. Arrangements to enable directors to acquire shares or debentures

CA Sch 12(8)(a)

CA Sch 12(8)(b)

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

4. Directors' interests in shares or debentures

CA Sch 12(9)

According to the register of directors' shareholdings kept by the Company under section 164 of the Singapore Companies Act, Chapter 50 (the Act), the directors of the Company who held office at the end of the financial year had no interests in the shares or debentures of the Company and its related corporations except as stated below:

Name of directors	<u>Direct interest</u>		<u>Deemed interest</u>	
	<u>At the beginning of financial year or date of appointment</u>	<u>At the end of financial year</u>	<u>At the beginning of financial year or date of appointment</u>	<u>At the end of financial year</u>
Ordinary shares of the Company				
Irene Lee	1,500	1,500	-	-
Nelson Ma	1,500	1,500	1,500	1,500
Steven Lee	1,000	1,000	-	-

**DIRECTORS' STATEMENT (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

5. Share options

- CA Sch 12(2) There were no share options granted during the financial year to subscribe for unissued shares of the Company.
- CA Sch 12(5) There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.
- CA Sch 12(6) There were no unissued shares of the Company under option at the end of the financial year.

6. Auditor

PA LLP has expressed its willingness to accept re-appointment as auditor.

CA 201: 16 On behalf of the Board of Directors

Irene Lee
Director
30 May 2019

Nelson Ma
Director

Help tips

(i) Addressee(s) of the Directors' Statement

The phrase '*to the member*' should be used if the Company has only one shareholder.

(ii) Opinion of the directors

Where there are events or conditions that may cast significant doubt on the Company's ability to pay its debts as and when they fall due, the opinion of the directors should be amended accordingly with the appropriate disclosures.

(iii) Signing of the Directors' Statement

The phrase '*On behalf of the Board of Directors*' is not necessary if the Company has two or fewer directors.

If the Company has two directors, the phrase '*The Board of Directors*' is suggested.

If the Company has only one director, the phrase '*The Sole Director*' is suggested.

**DIRECTORS' STATEMENT (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Help tips (Continued)	
(iv) Dating of the Directors' Statement	
CA 201: 16 CA 203: 1	The directors' statement shall be made out and sent to all persons entitled to receive notice of general meetings of the Company not less than 14 days before the date of the Annual General Meeting (AGM). The directors' statement shall be made in accordance with a resolution of the directors specifying the day on which it was made out and be signed on behalf of the directors by two directors of the Company containing the information set out in the Twelfth Schedule of the CA.
CA 175: 1(b) CA 175A	AGMs shall be held within six months after the end of the financial years for non-listed companies unless the company meets the requirements in section 175A of the CA.
(v) Directors' interests in shares or debentures	
CA 164: 15(a), 16	<p>A director or chief executive officer of the Company shall be deemed to hold or have an interest or a right in or over any shares or debentures if:</p> <ul style="list-style-type: none">(i) a wife or husband of the director or chief executive officer (as the case may be) (not being herself or himself a director or chief executive officer thereof) holds or has an interest or a right in or over any shares or debentures; or(ii) a child of less than 18 years of age of that director or chief executive officer (as the case may be) (not being himself or herself a director or chief executive officer) holds or has an interest in shares or debentures. <p>"Child" includes step-son, adopted son, step-daughter and adopted daughter.</p>
CA Sch 12(9)	<p>If a director resigns after the end of the financial year but before the date of the directors' statement, his interest as at the end of the financial year is still required to be disclosed.</p> <p>If none of the directors has any interests in shares or debentures in the Company or any related corporations, the following disclosure is suggested:</p> <p><i>None of the directors of the Company holding office at the reporting date had any interest in the shares or debentures of the Company or any related corporations either at the beginning or end of financial year.</i></p>
CA 7: 4A	A director is deemed to have interests in the related companies if the director is entitled to exercise or control the exercise of not less than 20% of the voting shares in the related companies.
CA 164: 3	<p>Where the Company is a wholly-owned subsidiary of another company (i.e. the holding company), the Company may be deemed to have complied with section 164 of the CA in relation to a director who is also a director of that other company if the particulars required by this section to be shown in the register of the Company are shown in the register of the holding company. The following should be disclosed:</p> <p><i>The directors, Mr/Ms _____ and Mr/Ms _____ are also directors of (holding company), incorporated in the Republic of Singapore, which owns all the shares of the Company. Their interests in shares are recorded in the register of directors' shareholdings kept under section 164 of the Singapore Companies Act by the holding company and are therefore not disclosed in this directors' statement.</i></p>

Help tips (Continued)

(vi) Share options

CA Sch 12(2)

Particulars of share options issued by the Company to be disclosed include:

- (i) where any option has been granted by a Company, other than a parent company for which consolidated financial statements are required, during the period covered by the financial statements to take up unissued shares of a Company —
 - (a) the number and class of shares in respect of which the option has been granted;
 - (b) the date of expiration of the option;
 - (c) the basis upon which the option may be exercised; and
 - (d) whether the person to whom the option has been granted has any right to participate by virtue of the option in any share issue of any other company.

CA Sch 12(3)

- (ii) where any of the above particulars have been disclosed in a previous directors' statement, reference may be made to that statement.

CA Sch 12(5)

- (iii) the particulars of shares issued during the period to which the statement relates by virtue of the exercise of options to take up unissued shares of the Company, whether granted before or during that period.

CA Sch 12(6)

- (iv) the number and class of unissued shares of the Company under option as at the end of the period to which the statement relates, the price, or method of fixing the price, of issue of those shares, the date of expiration of the option and the rights, if any, of the persons to whom the options have been granted to participate by virtue of the options in any share issue of any other company.

(vii) Resignation of directors

There are no requirements to give details of director(s) who resigned during the financial year and up to the date of the directors' statement.

CA Sch 12(9)

If a director resigns after the end of the financial year but before the date of the directors' statement, his interests at the end of the financial year should still be disclosed.

(viii) Revision of defective financial statements

Directors are able to revise the Company's financial statements in respect of any financial year of the Company. The revision is confined to those aspects in which the financial statements did not comply with the requirements of the CA (including compliance with FRSs) and any necessary consequential revisions. A new directors' statement and auditor's report must be attached to the revised financial statements. Appendix 4 of the guidance, *Revision of Defective Financial Statements, or Consolidated Financial Statements or Balance-Sheet Under Sections 202A and 202B of the Companies Act – Guidance for Companies*, issued by ACRA provides an illustrative new directors' statement.

ABC PTE. LTD.

**INDEPENDENT AUDITOR'S REPORT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

SSA 700: 21-22
CA 207: 1

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABC PTE. LTD.

SSA 700: 44, 45

Report on the Audit of the Financial Statements

SSA 700: 23

Opinion

SSA 700: 24

We have audited the financial statements of ABC Pte. Ltd. (the Company), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

SSA 700: 25
CA 207: 2(a)

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Company as at 31 December 2018 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

SSA 700: 28

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SSA 700: 32
SSA 720: 21

Other Information

SSA 720: 22(a)
SSA 720: 22(b)

Management is responsible for the other information. The other information comprises the Directors' Statement [set out on pages xx to xx].

SSA 720: 22(c)

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

SSA 720: 22(d)
SSA 720: 22(e)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Help tips

The "Other Information" section should be amended accordingly when the auditor concludes that a material misstatement of the other information exists. Please refer to the illustrative auditor's reports in Appendix 2 of SSA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*.

For many private companies, the directors' statement may be the only document that constitutes other information. If the Company issues annual report, the "Other Information" section should be customised accordingly.

**INDEPENDENT AUDITOR'S REPORT (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

SSA 700: 33

Responsibilities of Management and Directors for the Financial Statements

SSA 700: 34(a)
SSA 700: A46

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

SSA 700: 34(b)

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

SSA 700: 35
SSA 700: A49

The directors' responsibilities include overseeing the Company's financial reporting process.

SSA 700: 37

Auditor's Responsibilities for the Audit of the Financial Statements

SSA 700: 38

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

SSA 700: 39(a)

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

SSA 700: 39(b)(i)

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

SSA 700: 39(b)(ii)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

SSA 700: 39(b)(iii)

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

SSA 700: 39(b)(iv)

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

**INDEPENDENT AUDITOR'S REPORT (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Help tips

The preceding paragraph would be replaced by the following when financial statements are prepared on a basis other than going concern:

Conclude on the appropriateness of management's use of the going concern basis of accounting. When such use is inappropriate and management uses an alternative basis of accounting, we conclude whether the alternative basis used by management is acceptable in the circumstances. We also evaluate the adequacy of the disclosures describing the alternative basis and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

- SSA 700: 39(b)(v)** • Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- SSA 700: 40(a)** We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- SSA 700: 43** **Report on Other Legal and Regulatory Requirements**
- CA 207: 2(b)** In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.
- SSA 700: 47** **PA LLP**
Public Accountants and
Chartered Accountants
- SSA 700: 48** Singapore
SSA 700: 49 [Date]

Help tips

(i) Key Audit Matters

SSA 701 *Communicating Key Audit Matters In the Independent Auditor's Report* is applicable to audits of complete sets of general purpose financial statements of listed entities. A listed entity is defined in the Glossary of Terms to SSA as "an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body". As such, Key Audit Matters (KAMs) reporting is also applicable to entities which have their bonds or notes trading on Singapore Exchange or other recognised stock exchange.

KAMs relate to those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period and are selected from matters communicated to those charged with governance.

Auditors of non-listed entities may choose to communicate KAMs. This illustrative auditor's report does not include illustrations of KAMs of ABC Pte. Ltd. The auditor's report would be customised to include the KAMs according to specific circumstances of the entity.

**INDEPENDENT AUDITOR'S REPORT (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Help tips (Continued)

(ii) Auditor's responsibilities relating to other information

SSA 720 (Revised) defines other information as financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

A list of examples of amounts or other items that may be included in other information is available in Appendix 1 of SSA 720 (Revised).

For illustrations of auditor's reports relating to other information, please refer to Appendix 2 of SSA 720 (Revised).

For guidance on whether material inconsistencies exist for various circumstances in relation to the directors' statement, please refer to *Material Inconsistencies in Other Information under SSA 720 (Revised) – Guidance with regard to Directors' Statement* issued by ISCA. For example, one potential scenario is when the directors opine that the financial statements are drawn up so as to give a true and fair view of the financial position and performance of the Company while the auditor issues a qualified opinion due to a material misstatement in the financial statements. In this case, material inconsistencies exist, with respect to the matter giving rise to the qualified opinion, that require the auditor to report accordingly under the "Other Information" section.

(iii) Going concern

SSA 570 (Revised) *Going Concern* deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

A list of illustrations of auditor's reports relating to going concern is available in the Appendix of SSA 570 (Revised).

(iv) Titles of financial statements

FRS 1: 10

Entities are allowed to use titles for the statements other than those used in FRS 1 *Presentation of Financial Statements*. In the application of this standard, the Company has chosen to use the same terms as the FRS.

(v) First year of appointment as auditor

SSA 710: 17

If there is a change of auditor, include an "Other Matter" section after the "Basis for Opinion" section which could be disclosed as follows:

Other Matter

The financial statements of the Company for the year ended (date) were audited by another firm of auditors who expressed an unmodified/modified opinion on those statements on (insert the date of auditor's report issued by the predecessor auditor).*

*The nature and impact of the modified opinion shall be disclosed.

For more information regarding disclosure of "Other Matter", please refer to SSA 706 (Revised) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

ABC PTE. LTD.

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

FRS 1: 99	(Illustrating the analysis of expenses by function)			
FRS 1: 81A FRS 1: 103	Note	2018 \$'000	2017 \$'000	
FRS 1: 82(a), 103	Revenue	4	55,325	47,416
FRS 1: 103	Cost of sales		(30,589)	(26,668)
FRS 1: 103	Gross profit		24,736	20,748
FRS 1: 103	Other income	5	934	685
FRS 1: 103	Selling and distribution expenses		(8,556)	(6,776)
FRS 1: 103	Administrative and other expenses		(7,595)	(6,704)
FRS 1: 82(b)	Finance costs	6	(80)	(72)
FRS 1: 82(ba)	(Impairment loss)/reversal of impairment loss on financial assets	7	(113)	88
FRS 1: 82(c)	Share of results of joint venture		29	25
FRS 1: 85	Profit before tax	7	9,355	7,994
FRS 1: 82(d) FRS 12: 77	Income tax expense	8	(2,358)	(1,527)
FRS 1: 81A(a)	Profit for the year*		6,997	6,467
Other comprehensive income:				
FRS 1: 82A(a)(i)	<i>Items that will not be reclassified to profit or loss:</i>			
FRS 107: 20(a)(vii)	Net fair value gains on equity instruments at fair value through other comprehensive income		65	-
FRS 1: 82A(a)(ii)	<i>Items that may be reclassified subsequently to profit or loss:</i>			
FRS 107: 20(a)(ii)	Net fair value gains on available-for-sale financial assets		-	69
FRS 1: 81A(b)	Other comprehensive income for the year, net of tax		65	69
FRS 1: 81A(c)	Total comprehensive income for the year*		7,062	6,536

The accompanying notes form an integral part of these financial statements.

Help tips

* If the Company does not have any other comprehensive income/(loss) in current and prior years, the total comprehensive income/(loss) would be disclosed as follows:

Profit/(loss) for the year, representing total comprehensive income/(loss) for the year

XX

XX

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Help tips

(i) Presentation

FRS 1: 99

In the application of FRS 1, the Company has elected to present a single statement of profit or loss and other comprehensive income and for which the expenses are analysed by function.

As an alternative, the Company can present the analysis of expenses by nature if it provides information that is reliable and more relevant. (Appendix A).

(ii) Other comprehensive income

FRS 1: 82A(a)

In this set of illustrative financial statements, the other comprehensive income relates to net fair value gains on equity instruments at fair value through other comprehensive income, which is an item that will not be reclassified to profit or loss. Where applicable, the Company is required to present, in accordance with FRS 1, items of other comprehensive income, grouped into those that will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met.

FRS 1: 91

An entity may present items of other comprehensive income either:

- (a) net of related tax effects, (as illustrated in the statement of profit or loss and other comprehensive income), or
- (b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items (as illustrated below).

	2018	2017
	\$'000	\$'000

Other comprehensive income:

Items that will not be reclassified to profit or loss:

Net fair value gains on equity instruments at fair value through other comprehensive income

Net surplus on revaluation of freehold land and buildings

Share of gain on property revaluation of associates

Income tax relating to items of other comprehensive income

Items that may be reclassified subsequently to profit or loss:

Net fair value gains on debt instruments at fair value through other comprehensive income

Net fair value changes on debt instruments at fair value through other comprehensive income reclassified to profit or loss

Net fair value gains on available-for-sale financial assets

Net fair value changes on available-for-sale financial assets reclassified to profit or loss

Foreign currency translation

Income tax relating to items of other comprehensive income

Other comprehensive income for the year, net of tax

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Help tips (Continued)

Either way, the amount of income tax relating to each item of other comprehensive income must be disclosed either in the statement of profit or loss and other comprehensive income or in the notes. In this illustration, the entity has chosen to disclose the related tax effects in Note 8 "Income tax expense".

(iii) Share of results of joint venture

"Share of results of joint venture" is presented net of tax and non-controlling interests in the joint venture.

ABC PTE. LTD.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Non-current assets			
FRS 1: 60, 61			
FRS 1: 54(a)	9	8,530	9,094
FRS 1: 54(b)	10	3,800	3,450
FRS 1: 54(e)	11	314	285
FRS 1: 54(d)	12	866	700
FRS 1: 54(h)	13	1,055	1,055
FRS 1: 54(h)	14	162	162
		<u>14,727</u>	<u>14,746</u>
Current assets			
FRS 1: 60, 61			
FRS 1: 54(g)	15	7,966	4,776
FRS 115: B21		53	-
FRS 1: 55		755	895
FRS 1: 54(h)	13	-	1,020
FRS 1: 54(h)	16	9,198	7,766
FRS 1: 54(i)	17	7,199	3,776
		<u>25,171</u>	<u>18,233</u>
Total assets		<u><u>39,898</u></u>	<u><u>32,979</u></u>
EQUITY AND LIABILITIES			
Equity			
FRS 1: 54(r)	18	1,000	1,000
FRS 1: 54(r)		28,632	21,703
FRS 1: 54(r)	19	181	69
FRS 1: 54(r)		<u>29,813</u>	<u>22,772</u>
Equity attributable to owners of the Company			
Non-current liabilities			
FRS 1: 60, 61			
FRS 1: 54(o)	20	1,300	1,190
FRS 1: 54(m)	21	315	410
FRS 1: 54(k)	22	24	24
		<u>1,639</u>	<u>1,624</u>
Current liabilities			
FRS 1: 60, 61			
FRS 1: 54(n)		1,336	789
FRS 1: 54(l)	23	688	679
FRS 1: 54(k)	24	5,248	4,073
FRS 1: 54(k)	22	574	476
FRS 115: 105	4	159	-
FRS 115: B21	4	146	-
FRS 1: 54(m)	21	295	2,566
		<u>8,446</u>	<u>8,583</u>
Total liabilities		<u><u>10,085</u></u>	<u><u>10,207</u></u>
Total equity and liabilities		<u><u>39,898</u></u>	<u><u>32,979</u></u>

The accompanying notes form an integral part of these financial statements.

ABC PTE. LTD.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

	Share capital \$'000	Retained earnings \$'000	Fair value reserve \$'000	Total \$'000
At 1 January 2017	1,000	15,236	-	16,236
FRS 1: 106(d)(i) Profit for the year	-	6,467	-	6,467
FRS 1: 106(d)(ii) FRS 1: 106A Other comprehensive income: Net fair value gains on available-for-sale financial assets	-	-	69	69
FRS 1: 106(a) Total comprehensive income for the year	-	6,467	69	6,536
At 31 December 2017	1,000	21,703	69	22,772
At 1 January 2018	1,000	21,703	69	22,772
FRS 1: 106(b) Cumulative effect of adopting new accounting standards	-	(68)	47	(21)
At 1 January 2018 (restated)	1,000	21,635	116	22,751
FRS 1: 106(d)(i) Profit for the year	-	6,997	-	6,997
FRS 1: 106(d)(ii) FRS 1: 106A Other comprehensive income: Net fair value gains on equity instruments at fair value through other comprehensive income	-	-	65	65
FRS 1: 106(a) Total comprehensive income for the year	-	6,997	65	7,062
At 31 December 2018	1,000	28,632	181	29,813

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Help tips

(i) Presentation of the third statement of financial position

FRS 1: 40A

The entity is required to present a third statement of financial position as at the beginning of the earliest comparative period following a retrospective application of an accounting policy, a retrospective restatement of items in its financial statements, or a reclassification of items in the financial statements if the retrospective application, retrospective restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the earliest comparative period.

FRS 1: 40C

The entity need not present the related notes to the opening statement of financial position as at the beginning of the earliest comparative period other than that required under FRS 1: 41-44 and FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

(ii) Dividends

FRS 1: 107

An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividends per share.

CA 403: 1

No dividend shall be payable to the shareholders of any company except out of profits.

(iii) Presentation of each component of equity in the statement of changes in equity

FRS 1: 106(d)

(a) FRS 1 requires an entity to show in the statement of changes in equity, for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period.

FRS 1: 108

(b) Components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

ABC PTE. LTD.

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

FRS 7: 1 FRS 7: 18(b)	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
		9,355	7,994
Profit before tax			
FRS 7: 20(b), (c)			
Adjustments for:			
	9	1,588	1,527
	7	280	(263)
	5	(350)	(118)
	5	(33)	-
	7	(150)	-
	7	113	(88)
	23	295	262
	5	(35)	(28)
	6	80	72
		(29)	(25)
		(50)	45
		11,064	9,378
FRS 7: 20(a)			
Change in working capital:			
		(3,093)	(4,021)
		(1,512)	1,949
		140	(698)
		1,110	(1,961)
		(188)	(780)
		243	-
		7,764	3,867
FRS 7: 35		(1,701)	(908)
FRS 7: 10		6,063	2,959
Net cash generated from operating activities			
FRS 7: 21			
Cash flows from investing activities			
FRS 7: 16(a)	9	(1,524)	(1,646)
FRS 7: 16(b)		220	400
FRS 7: 16(f)		1,020	-
FRS 7: 31		35	28
FRS 7: 10		(249)	(1,218)
Net cash used in investing activities			
FRS 7: 21			
Cash flows from financing activities			
FRS 7: 31		(80)	(72)
FRS 7: 17(e)		(90)	-
FRS 7: 17(d)		(2,476)	(800)
		(350)	-
FRS 7: 10		(2,996)	(872)
Net cash used in financing activities			
Net increase in cash and cash equivalents			
		2,818	869
		55	(53)
		3,776	2,960
FRS 7: 45	17	6,649	3,776
Cash and cash equivalents at 31 December			

The accompanying notes form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Help tips	
FRS 7: 18	<p>(i) Direct/Indirect method</p> <p>FRS 7 <i>Statement of Cash Flows</i> allows entities to report cash flows from operating activities using either the direct method or the indirect method.</p> <p>The Company presents its cash flows using the indirect method.</p>
FRS 7: 43	<p>(ii) Non-cash transactions</p> <p>Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from the statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities. An example will be property, plant and equipment (PPE) acquired under finance leases.</p>
FRS 7: 17(a)	<p>(iii) Issuance of ordinary shares</p> <p>Proceeds from issuance of ordinary shares are classified as cash flows from financing activities.</p>
FRS 7: 31-34	<p>(iv) Dividends and interests</p> <p>Cash flows from interest and dividends received and paid shall each be disclosed separately, and classified consistently from period to period. These may be classified as financing (e.g. for long term loans) and investing (e.g. for bonds or fixed deposits) cash flows or alternatively as operating (e.g. for overdrafts) cash flows, depending on the nature of the transaction.</p> <p>The interest amounts to be adjusted against profit before tax are the amounts charged or credited to the profit or loss. The amounts to be shown under financing or investing cash flows shall be strictly cash paid or received during the period. Differences will be reflected in the changes in working capital (for example, accrued interest) or as additions to qualifying assets if interest has been capitalised in the cost of these assets.</p>
	<p>(v) Unrealised foreign currency gains and losses</p> <p>If the effect of unrealised foreign currency gains/(losses) are material, appropriate disclosure shall be made.</p> <p>FRS 7: 20 states that under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:</p> <ul style="list-style-type: none"> (a) changes during the period in inventories and operating receivables and payables; (b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and (c) all other items for which the cash effects are investing or financing cash flows. <p>Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables.</p>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Help tips

(i) Ordering of illustrative disclosures

FRS 1: 113-114

The ordering of the illustrative disclosures in ABC Pte. Ltd. is based on FRS 1: 114(c) as an example. Entities are encouraged to tailor their disclosures including the structure of the notes to the financial statements according to each entity's specific facts and circumstances.

(ii) Enhancing disclosure effectiveness

Entities can consider improving disclosure effectiveness by using alternative formats that may better communicate the links between different pieces of financial information so as to facilitate users of financial statements to identify the relevant information more easily, and therefore enhance the understandability and comparability of financial statements. Tailoring disclosures to the entity-specific facts and circumstances may not reduce the length of the financial statements, but it should reduce the clutter and, in turn, enhance the usefulness of the financial statements.

In addition, entities should consider their own specific circumstances when determining which disclosures to include, based on their specific materiality considerations. If a particular transaction or item is immaterial to the reporting entity, FRSs allow for non-disclosure. If immaterial information is included in the financial statements, the sheer volume of information can potentially reduce the transparency and usefulness of the financial statements as material and relevant information loses prominence.

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General

FRS 1: 138(a)

ABC Pte. Ltd. (the Company) is incorporated and domiciled in Singapore with its registered office and principal place of business at No. 4 Tuas View Crescent, #04-04 SME Centre, Singapore 123456.

FRS 1: 138(b)

The principal activities of the Company are those of trading in machinery and machinery parts.

FRS 1: 138(c)
FRS 24: 13

The immediate and ultimate holding company is XYZ Asia Pte. Ltd., which is incorporated in Singapore.

Help tips

(i) Change in name

FRS 1: 51(a)

If the Company changes its name during the financial year, the change shall be disclosed. An illustrative example can be found below:

With effect from (effective date), the name of the Company was changed from (former name) to (current name).

(ii) Disclosure of name of ultimate controlling party

FRS 24: 13

The Company is required to disclose the name of its parent and, if different, the ultimate controlling party. The ultimate controlling party can be either an entity or a person.

If neither the Company's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

FRS 1: 117 **2. Summary of significant accounting policies**

2.1 Basis of preparation

FRS 1: 112(a)
FRS 1: 117(a)
FRS 1: 16

The financial statements of the Company have been drawn up in accordance with Financial Reporting Standards in Singapore (FRSs). The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

FRS 1: 51(d), (e)

The financial statements are presented in Singapore Dollars (\$), which is the Company's functional currency. All financial information presented in Singapore Dollars has been rounded to the nearest thousand (\$'000), unless otherwise indicated.

Help tips

(i) Disclosure of accounting policies

FRS 1: 119

In deciding whether a particular accounting policy shall be disclosed, management considers whether the disclosure will assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Accounting policies shall be disclosed for all material components. The accounting policies illustrated in this publication must be tailored if they are adopted by other reporting entities to suit the particular circumstances and needs of readers of those financial statements.

Disclosure of accounting policies is especially useful to users when those policies are selected from alternatives allowed in FRSs. Examples include measurement bases used for classes of PPE (FRS 16 *Property, Plant and Equipment*), intangibles (FRS 38 *Intangible Assets*) and investment properties (FRS 40 *Investment Property*).

(ii) Materiality

FRS 1: 121
FRS 1: 7

An accounting policy may also be significant because of the nature of the entity's operations, even if amounts shown for current and prior periods are not material. Omission or misstatement of items are material if they can, individually or collectively, influence the economic decisions that users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement, judged in the surrounding circumstances. The size or nature of the item, or a combination of both could be the determining factor.

(iii) Inappropriate accounting policy

FRS 1: 18

An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

(iv) Going concern

FRS 1: 25

When preparing financial statements, management is required to make an assessment of an entity's ability to continue as a going concern.

FRS 1: 122

When management has made judgement in the process of assessing the entity's going concern assumption, which has a significant effect on the amounts recognised in the financial statements, such judgement shall be disclosed.

FRS 1: 25

In addition, during management's assessment, when it becomes aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Help tips (Continued)

(iv) Going concern (Continued)

An illustrative disclosure where the ability of an entity to continue as a going concern is dependent on the holding company's continuing financial support is as follows:

The financial statements of the Company have been prepared on a going concern basis notwithstanding the net capital deficiency of approximately \$_____ and \$_____ as at 31 December 2018 and 31 December 2017 respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent on the undertaking of its holding company, XXX Limited, to provide continuing financial support to enable the Company to meet its liabilities as and when they fall due.

If the Company is unable to continue in operational existence for the foreseeable future, the Company may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statement of financial position. In addition, the Company may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

2.2 Adoption of new and amended standards and interpretations

FRS 8: 28, 29

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Company has adopted all the new and amended standards which are relevant to the Company and are effective for annual financial periods beginning on or after 1 January 2018. Except for the adoption of FRS 109 *Financial Instruments* and FRS 115 *Revenue from Contracts with Customers* described below, the adoption of these standards did not have any material effect on the financial performance or position of the Company.

Help tips

(i) FRSs effective for annual period beginning on or after 1 January 2018

The following standards and interpretations are effective for the annual period beginning on or after 1 January 2018:

- FRS 109 *Financial Instruments*
- FRS 115 *Revenue from Contracts with Customers*
- Improvements to FRSs (December 2016)
 - *Amendments to FRS 28 Measuring an Associate or Joint Venture at Fair Value*
- *Amendments to FRS 102 Classification and Measurement of Share-based Payment Transactions*
- *Amendments to FRS 40 Transfers of Investment Property*
- INT FRS 122 *Foreign Currency Transactions and Advance Considerations*

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

Help tips (Continued)

FRS 8: 28

- (ii) FRS 8 requires the disclosure of the amount of the adjustment for the current period and each prior period (to the extent practicable) upon initial application of a standard or an interpretation.

FRS 109 *Financial Instruments*

FRS 109: 7.1.1

FRS 109 replaces FRS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

FRS 109: 7.2.1
FRS 109: 7.2.15

The Company applied FRS 109 retrospectively, with an initial application date of 1 January 2018. The Company has not restated comparative information which continues to be reported under FRS 39 and the disclosure requirements of FRS 107 *Financial Instruments: Disclosures* relating to items within the scope of FRS 39. The impact arising from FRS 109 adoption was included in the opening retained earnings and other components of equity at the date of initial application.

The effect of adopting FRS 109 as at 1 January 2018 was as follows:

	Reference	Increase/(decrease) \$'000
Assets		
Investment in a joint venture	(c)	(5)
Investment securities	(a)	68
Trade receivables	(b)	(22)
Total assets		41
Total adjustment on equity:		
Retained earnings	(a),(b),(c)	(6)
Fair value reserve	(a)	47
		41

FRS 107: 42J

The nature of the adjustments are described below:

(a) Classification and measurement

Under FRS 109, debt instruments are subsequently measured either at fair value through profit or loss (FVPL), amortised cost or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

FRS 109 Financial Instruments (Continued)

(a) Classification and measurement (Continued)

The classification and measurement requirements of FRS 109 did not have a significant impact to the Company. The Company continued measuring at fair value all financial assets previously held at fair value under FRS 39. The following are the changes in the classification and measurement of the Company's financial assets:

- Trade and other receivables and loan to the holding company classified as loans and receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These were classified and measured as debt instruments at amortised cost beginning 1 January 2018.
- Quoted equity securities classified as available-for-sale (AFS) financial assets as at 31 December 2017 were classified and measured as financial assets at FVPL beginning 1 January 2018. As a result of the change in classification of the Company's quoted equity securities, fair value reserve of \$21,000 related to the investment that was previously presented under the fair value reserve, was reclassified to retained earnings as at 1 January 2018.
- Unquoted equity securities classified as AFS financial assets as at 31 December 2017 were classified and measured as equity instruments designated at FVOCI beginning 1 January 2018. The Company elected to classify irrevocably its unquoted equity securities under this category at the date of initial application as it intends to hold these investments for long-term appreciation. There were no impairment losses recognised in profit or loss for these investments in prior periods. In addition, one of the investments in unquoted equity securities was measured at cost under FRS 39. Upon adoption of FRS 109, the Company measured the unquoted equity security at FVOCI. The impact arising from this change resulted in an increase in carrying value of \$68,000 to the unquoted equity securities with a corresponding adjustment to fair value reserve at 1 January 2018.

The Company has not designated any financial liabilities at FVPL. There are no changes in classification and measurement for the Company's financial liabilities.

FRS 107: 42I

In summary, upon the adoption of FRS 109, the Company had the following required or elected reclassifications as at 1 January 2018:

		FRS 109 measurement category		
		FVPL	FVOCI	Amortised cost
FRS 39 measurement category	\$'000	\$'000	\$'000	\$'000
<u>Loans and receivables</u>				
Trade receivables	7,766	-	-	7,744
Other receivables	162	-	-	162
Loan to the holding company	2,075	-	-	2,075
<u>AFS</u>				
Quoted equity securities	177	177	-	-
Unquoted equity securities	523	-	591	-
		177	591	9,981

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

FRS 109 Financial Instruments (Continued)

(b) Impairment

FRS 109: 5.5.1

The adoption of FRS 109 has fundamentally changed the Company’s accounting for impairment losses for financial assets by replacing FRS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach. FRS 109 requires the Company to recognise an allowance for ECLs for all debt instruments not held at FVPL.

FRS 107: 42P

Upon adoption of FRS 109, the Company recognised additional impairment of \$22,000 on the Company’s trade receivables, resulting in a decrease in retained earnings of \$22,000 as at 1 January 2018.

Set out below is the reconciliation of the ending impairment allowances in accordance with FRS 39 to the opening loss allowances determined in accordance with FRS 109:

	Allowance for impairment under FRS 39 as at 31 December 2017 \$'000	Remeasurement \$'000	ECL under FRS 109 as at 1 January 2018 \$'000
Loans and receivables under FRS 39/ Financial assets at amortised cost under FRS 109	507	22	529

(c) Other adjustment

In addition to the adjustments described above, investment in a joint venture (arising from the financial instruments held by the joint venture) was adjusted to retained earnings as necessary upon adoption of FRS 109 as at 1 January 2018.

Help tips

(i) Restating of comparative information

FRS 109: 7.2.15

In this illustration, the Company did not restate comparative information. An entity may restate comparative information if, and only if, it is possible without the use of hindsight. Hindsight in this context will include factors influencing measurement such as fair values and expected credit loss calculations. In this case, the restated financial statements must reflect all of the requirements in FRS 109.

(ii) Other financial instruments

In this illustration, the Company did not have any financial assets and financial liabilities that were previously designated and measured at FVPL but were no longer so designated at the date of initial application of FRS 109. If an entity has any financial assets and financial liabilities at FVPL but are no longer so designated at the date of initial application of FRS 109, the entity is required to disclose:

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

Help tips (Continued)

(ii) Other financial instruments (Continued)

- FRS 107: 42I(c) (a) the amount of these financial assets and financial liabilities, distinguishing between those that FRS 109 requires an entity to reclassify and those that an entity elects to reclassify at the date of initial application;
- FRS 107: 42N(a) (b) the effective interest rate determined on the date of initial application; and
- FRS 107: 42N(b) (c) the interest revenue or expense recognised.
- FRS 107: 42N The disclosures in items (b) and (c) shall be made for each reporting period until derecognition if the fair value of a financial asset or a financial liability is treated as the new gross carrying amount at the date of initial application. Otherwise, the disclosures need not be made after the annual reporting period in which the entity initially applies FRS 109.
- FRS 107: 42M In this illustration, the Company did not have any financial assets and financial liabilities that were reclassified so that they were measured at amortised cost and, in the case of financial assets, that were reclassified out of FVPL so that they were measured at FVOCI, as a result of transition to FRS 109.
- If an entity has such reclassifications, FRS 107 requires the disclosures of:
- FRS 107: 42M(a) (a) the fair value of the financial assets or financial liabilities at the end of the reporting period; and
- FRS 107: 42M(b) (b) the fair value gain or loss that would have been recognised in profit or loss or other comprehensive income during the reporting period if the financial assets or financial liabilities had not been reclassified.

(iii) Impairment

- In this illustration, the Company only recognised additional impairment on trade receivables arising from the adoption of FRS 109. The impairment requirements in FRS 109: 5.5 apply to financial assets measured at amortised cost, financial assets measured at FVOCI, lease receivables, contract assets, loan commitments and financial guarantee contracts.
- FRS 107: 42P On the date of initial application of impairment requirements in FRS 109, an entity is required to disclose information that would permit the reconciliation of the ending impairment allowances in accordance with FRS 39 and the provisions in accordance with FRS 37 to the opening loss allowances determined in accordance with FRS 109. For financial assets, this disclosure shall be provided by the related financial assets' measurement categories in accordance with FRS 39 and FRS 109, and shall show separately the effect of the changes in the measurement category on the loss allowance at that date.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

FRS 115 Revenue from Contracts with Customers

FRS 115: C3(b)
FRS 115: C7

FRS 115 supersedes FRS 11 *Construction Contracts*, FRS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. FRS 115 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflect the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

FRS 115 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

FRS 115: C7

The Company adopted FRS 115 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at 1 January 2018.

The cumulative effect of initially applying FRS 115 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under FRS 11, FRS 18 and related interpretations.

The effect of adopting FRS 115 as at 1 January 2018 was as follows:

	Reference	Increase/(decrease) \$'000
Assets		
Inventories	(a)	(62)
Right of return assets	(a)	70
Total assets		8
Liabilities		
Trade payables	(a)	(294)
Contract liabilities	(b)	118
Refund liabilities	(a)	351
Provisions	(b)	(105)
Total liabilities		70
Total adjustment on equity:		
Retained earnings	(a),(b)	(62)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

FRS 115 Revenue from Contracts with Customers (Continued)

FRS 115: C8(a)

The following shows the amount by which each financial statement line item is affected for the year ended 31 December 2018 as a result of the adoption of FRS 115. The adoption of FRS 115 did not have a material impact on other comprehensive income or the Company's operating, investing and financing cash flows. The third column shows amounts prepared under FRS 115 and the first column shows what the amounts would have been had FRS 115 not been adopted:

Statement of profit or loss

	Reference	2018 (FRS 18) \$'000	FRS 115 adjustments \$'000	2018 (FRS 115) \$'000
Revenue	(a),(b)	55,493	(168)	55,325
Cost of sales	(a),(b)	(30,722)	133	(30,589)
Gross profit		24,771	(35)	24,736
Other income		934	-	934
Selling and distribution expenses		(8,556)	-	(8,556)
Administrative and other expenses		(7,595)	-	(7,595)
Finance costs		(80)	-	(80)
Impairment loss on financial assets		(113)	-	(113)
Share of results of joint venture		29	-	29
Profit before tax		9,390	(35)	9,355
Income tax expense		(2,358)	-	(2,358)
Profit for the year		7,032	(35)	6,997

The following shows the amount by which each financial statement line item is affected as at 31 December 2018 as a result of the adoption of FRS 115:

Statement of financial position

	Reference	2018 (FRS 18) \$'000	FRS 115 adjustments \$'000	2018 (FRS 115) \$'000
ASSETS				
Inventories	(a)	8,027	(61)	7,966
Right of return assets	(a)	-	53	53
Total assets		39,906	(8)	39,898
EQUITY AND LIABILITIES				
Equity				
Retained earnings	(a),(b)	28,729	(97)	28,632
Equity attributable to owners of the Company		29,910	(97)	29,813

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

FRS 115 Revenue from Contracts with Customers (Continued)

Statement of financial position (Continued)

	Reference	2018 (FRS 18) \$'000	FRS 115 adjustments \$'000	2018 (FRS 115) \$'000
Current liabilities				
Trade payables	(a)	5,353	(105)	5,248
Contract liabilities	(b)	-	159	159
Refund liabilities	(a)	-	146	146
Provisions		799	(111)	688
Total equity and liabilities		39,906	(8)	39,898

FRS 115: C8(b)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(a) Sale of machinery and parts with variable consideration

For the sale of machinery and parts, some contracts with customers provide a right of return or volume rebates. Such provisions give rise to variable consideration under FRS 115. Prior to adopting FRS 115, the Company recognised revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and volume rebates. Under FRS 115, variable consideration is estimated and is constrained to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is subsequently resolved.

• **Rights of return**

The Company previously recorded a provision for the net margin arising from expected returns, with the initial carrying amount of goods expected to be returned included in inventories. Under FRS 115, the Company estimates the amount of expected returns in determining the transaction price and recognises revenue based on the amounts to which the Company expects to be entitled through the end of the return period. The Company recognises the amount of expected returns as a refund liability, representing its obligation to return the customer's consideration. Separately, the Company recognises a right of return asset for the right to recover the returned goods.

Upon adoption of FRS 115, the Company reclassified trade payables of \$112,000 to refund liabilities and inventories of \$62,000 to right of return assets as at 1 January 2018. In addition, the remeasurement resulted in additional refund liabilities of \$12,000 and right of return assets of \$8,000 in the statement of financial position as at 1 January 2018. As a result of these adjustments, retained earnings as at 1 January 2018 decreased by \$4,000.

As at 31 December 2018, the Company recognised right of return assets and refund liabilities of \$53,000 and \$48,000 respectively and decrease in trade payables, inventories and retained earnings by \$49,000, \$61,000 and \$7,000 respectively. The revenue and cost of sales for the year ended 31 December 2018 also decreased by \$6,000 and \$3,000 respectively.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

FRS 115 Revenue from Contracts with Customers (Continued)

(a) Sale of machinery and parts with variable consideration (Continued)

- Volume rebates

The Company provides retrospective rebates to some of its customers if the customers reach a certain threshold of purchase. Prior to the adoption of FRS 115, the Company estimated the probability-weighted average amount of rebates and included a provision for rebates in trade and other payables.

Under FRS 115, retrospective volume rebates give rise to variable consideration. To estimate the variable consideration to which it will be entitled, the Company applied the expected value method. Upon adoption of FRS 115, the Company recognised refund liabilities of \$227,000 for the expected future rebates on sale of goods which consideration have been received from customers as at 1 January 2018. The Company also derecognised the provision included in trade payables of \$182,000, and reduced the retained earnings for the difference of \$45,000 as at 1 January 2018.

As at 31 December 2018, the Company recognised refund liabilities of \$98,000 and decrease in trade payables and retained earnings by \$56,000 and \$42,000 respectively. The revenue for the year ended 31 December 2018 also decreased by \$22,000.

(b) Service-type warranty

The Company offers customers the option to separately purchase extended warranty for machinery sold. The extended warranty is a distinct service to the customer in addition to the assurance that the product complies with agreed-upon specifications. The Company recognised all warranty-related costs as a provision for warranty at the time of the sales which were previously accounted for under FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Under FRS 115, the Company accounts for a service-type warranty as a separate performance obligation to which the Company allocates a portion of the transaction price when the warranty is bundled together with the sale of machinery. The portion of the transaction price allocated to the service-type warranty is initially recorded as a contract liability and recognised as revenue over the period the warranty services are provided.

Upon adoption of FRS 115, the Company recognised contract liabilities of \$118,000 related to unfulfilled extended warranties as at 1 January 2018. Warranty provisions of \$105,000 previously recognised under FRS 37 were derecognised and the difference of \$13,000 was recognised as a decrease in retained earnings as at 1 January 2018.

As at 31 December 2018, the Company recognised contract liabilities of \$159,000 and decrease in provisions and retained earnings by \$111,000 and \$48,000 respectively. The revenue and cost of sales for the year ended 31 December 2018 also decreased by \$140,000 and \$130,000 respectively.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

Help tips

(i) FRS 115 transition provisions

FRS 115: C3

An entity has an option to apply FRS 115 using either the full retrospective approach or the modified retrospective approach. In this illustration, the Company applied the modified retrospective approach.

FRS 115: C7

Under the modified retrospective approach, the cumulative effect of initially applying FRS 115 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application. This means that the comparative information in the statement of financial position is not restated. As such, both the pre-FRS 115 (i.e. FRS 11, FRS 18 and the related interpretations) and FRS 115 accounting policies that are significant to the financial statements are disclosed.

An entity may choose to apply the modified retrospective approach to all contracts as at the date of initial application of FRS 115 (rather than only to contracts that are not completed at the date of initial application) in order to apply the same accounting to similar contracts. For example, assume that the date of initial application of FRS 115 by a retailer is 1 January 2018. For a sale made on 31 December 2017, the contract would be considered as a completed contract as at the date of initial application of FRS 115. If the retailer applies the standard only to contracts that are not completed, it would not restate revenue for the sale made on 31 December 2017 which would continue to be accounted for under FRS 18. However, any similar sales on or after the date of initial application of FRS 115 would be subject to the requirements of FRS 115. Accordingly, if the retailer prefers to account for similar transactions under the same accounting model, it could choose to adopt the standard for all contracts, rather than only to those contracts that are not completed at the date of initial application of FRS 115.

Entities that use the modified retrospective method need to make this election at the entity-wide level. Management need to carefully consider whether to apply the standard to all contracts or only to contracts that are not completed as at the date of initial application of FRS 115, considering the totality of all of the entity's revenue streams and the potential disparity in accounting treatment for the same or similar types of transactions after they adopt the standard.

(ii) Disclosures required under the modified retrospective approach

FRS 115: C8

Under the modified retrospective approach, the following disclosures are required:

- the amount by which each financial statement line item is affected in the current reporting period by the application of FRS 115 as compared to previous FRSS (i.e. FRS 11, FRS 18 and related interpretations); and
- an explanation of the reasons for significant changes identified.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

Help tips (Continued)

(ii) Disclosures required under the modified retrospective approach (Continued)

In this illustration, the Company provided in a table the financial statement line items affected by the adoption of FRS 115 and the related amounts prepared under FRS 115 and the previous FRSs. Alternatively, entities may opt to disclose only the amount by which each financial statement line item is affected (i.e. increases and decreases) to comply with the requirements of FRS 115: C8.

Entities will need to exercise judgement in determining the appropriate level of disclosures to describe the nature of the cumulative adjustment to equity as at the date of initial application and to explain the significant changes in each financial statement line item of the current reporting period.

Where applicable, consider including the following illustrative accounting policies:

(iii) Bundled sales of machinery and installation services

Before the adoption of FRS 115, the Company accounted for the machinery and installation service as separate deliverables within bundled sales and allocated consideration to each deliverable using the relative fair value approach.

Under FRS 115, the Company assessed that there were two performance obligations in a contract for bundled sales of machinery and installation services and performed a re-allocation of the transaction price based on their relative stand-alone selling prices, which decreased the amount allocated to installation services.

Therefore, deferred revenue decreased by \$_____ with a corresponding increase in retained earnings by the same amount as at 1 January 2018. In addition, the Company reclassified \$_____ from deferred revenue to contract liabilities as at 1 January 2018.

Before adoption of FRS 115, the Company recognised trade receivables, even if receipt of the total consideration was conditional on successful completion of installation services. Under FRS 115, any earned consideration that is conditional should be recognised as a contract asset rather than receivable. Therefore, upon adoption of FRS 115, the Company reclassified \$_____ from trade receivables to contract assets as at 1 January 2018.

As at 31 December 2018, FRS 115 increased contract assets by \$_____; decreased trade receivables by \$_____; increased contract liabilities by \$_____; decreased deferred revenue by \$_____; and increased retained earnings by \$_____. It also increased revenue from contracts with customers by \$_____ for the year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

Help tips (Continued)

(iv) Principal versus agent considerations

The Company has certain contracts with customers to acquire, on their behalf, special machinery produced by foreign suppliers. Before the adoption of FRS 115, the Company concluded that, based on the existence of credit risk and the nature of the consideration in the contract, it had an exposure to the significant risks and rewards associated with the sale of machinery to its customers, and accounted for the contracts as a principal. Upon the adoption of FRS 115, the Company determined that it did not control the goods before they are transferred to customers. Hence, it is an agent in these contracts as it does not have the ability to direct the use of the machinery or obtain benefits from the machinery. This change did not affect the statement of financial position. However, this change will result in decrease in revenue from the sale of goods and cost of sales and an increase in revenue from rendering of services by the difference.

For the year ended 31 December 2018, FRS 115 decreased both revenue from contracts with customers and cost of sales by \$_____.

(v) Tax and other adjustments

Upon adoption of FRS 115, the Company's investment in joint venture as at 1 January 2018 decreased by \$_____ with corresponding adjustments to retained earnings of \$_____. The corresponding tax impact to the Company arising from the adoption of FRS 115 resulted in decrease in income tax payable of \$_____ with a corresponding increase in retained earnings amounting to \$_____ on 1 January 2018 and an increase in income tax expense of \$_____ with a corresponding increase in retained earnings amounting to \$_____.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.3 Standards issued but not yet effective

FRS 8: 30, 31

The Company has not adopted the following standards applicable to the Company that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
FRS 116 <i>Leases</i>	1 January 2019
INT FRS 123 <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to FRS 109 <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to FRS 28 <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Annual Improvements to FRSs (March 2018)	1 January 2019
Amendments to FRS 110 and FRS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined

Help tips

FRS 8 requires an entity to:

- (a) disclose those standards or interpretations that have been issued which are not yet effective; and
- (b) provide known or reasonably estimable information to assess the possible impact that the application of such FRS will have on the entity's financial statements in the period of initial application.

Therefore, the Company has listed those standards and interpretations that are issued but not yet effective that are relevant to the Company. Where new standards and interpretations are not expected to have any material effect on the financial statements, in our view, it is not necessary to list them as such a disclosure would not be material.

The following is a list of standards and interpretations issued but not yet effective that are not relevant to the Company. Each entity should customise the note accordingly to include standards that are applicable to the entity.

Description	Effective for annual periods beginning on or after
Amendments to FRS 19 <i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019
FRS 117 <i>Insurance Contracts</i>	1 January 2021

FRS 117 is adopted from International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* issued by the International Accounting Standards Board (IASB). The IASB has tentatively decided to defer the effective date of IFRS 17 to annual periods beginning on or after 1 January 2022.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.3 Standards issued but not yet effective (Continued)

Except for FRS 116, the directors expect that the adoption of the other standards above will have no material impact on the financial statements in the year of initial application. The nature of the impending changes in accounting policy on adoption of FRS 116 are described below.

FRS 116 Leases

FRS 116 requires lessees to recognise most leases on the statement of financial position. The standard includes two recognition exemptions for lessees – leases of ‘low value’ assets and short-term leases. FRS 116 is effective for annual periods beginning on or after 1 January 2019. At commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

FRS 116: C5

The Company plans to adopt FRS 116 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening retained earnings at the date of initial application, 1 January 2019.

FRS 116: C8

On the adoption of FRS 116, the Company expects to choose, on a lease-by-lease basis, to measure the right-of-use asset at either:

- (i) its carrying amount as if FRS 116 had been applied since the commencement date, but discounted using the lessee’s incremental borrowing rate as of 1 January 2019; or
- (ii) an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before 1 January 2019.

FRS 116: C3
FRS 116: C10

In addition, the Company plans to elect the following practical expedients:

- not to reassess whether a contract is, or contains a lease at the date of initial application and to apply FRS 116 to all contracts that were previously identified as leases;
- to apply the exemption not to recognise right-of-use asset and lease liabilities to leases for which the lease term ends within 12 months as of 1 January 2019; and
- to apply a single discount rate to a portfolio of leases with reasonably similar characteristics.

The Company has performed a preliminary impact assessment based on currently available information, and the assessment may be subject to changes arising from ongoing analysis until the Company adopts FRS 116 in 2019.

On the adoption of FRS 116, the Company expects to recognise right-of-use assets of \$208,000 and lease liabilities of \$224,000 for its leases previously classified as operating leases, with a corresponding decrease in the opening retained earnings of \$5,000 and its related tax impact as of 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.3 Standards issued but not yet effective (Continued)

Help tips

FRS 116 transition provisions

The transition requirements in FRS 116 allows an entity to choose either the full retrospective approach or the modified retrospective approach for leases which it is the lessee. The election is to be applied consistently to all of its leases.

In this illustration, the Company plans to apply a modified retrospective approach. The disclosure should be tailored accordingly if an entity plans to apply the full retrospective approach, to adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts for each prior period presented as if the entity has always applied the requirements of the new standard.

In this illustration, it is assumed that the Company does not have subleases. If there is an impact arising from the change in the lessor accounting for subleases, the expected impact should be disclosed accordingly.

In this illustration, it is assumed that the effects of adoption of FRS 116 do not result in adjustment to other items in the financial statements such as prepaid or accrued rents. If there is any impact to such line items in the financial statements, the amount of adjustment for the affected line items in the financial statements should be disclosed accordingly.

2.4 Foreign currency transactions and balances

FRS 21: 21
FRS 21: 23

Transactions in foreign currencies are measured in the functional currency of the Company and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

FRS 21: 28

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss.

Help tips

(i) Non-monetary items measured at fair value

FRS 23: 23

If there are non-monetary items measured at fair value in a foreign currency, the following disclosure is suggested:

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.4 Foreign currency transactions and balances (Continued)

Help tips (Continued)

(ii) Change in the functional currency

FRS 21: 54

Where there is a change in the functional currency of the reporting entity, that fact and reason for the change in the functional currency shall be disclosed.

(iii) Presentation currency different from functional currency

FRS 21: 53

When the financial statements are presented in a currency different from the Company's functional currency, the following are required to be disclosed:

- (a) the Company's functional currency; and
- (b) the reason for using a different currency as its presentation currency.

2.5 Property, plant and equipment

FRS 16: 15,16
FRS 16: 30

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the property, plant and equipment.

FRS 16: 73(b), (c)

Depreciation is calculated using the straight-line method to allocate depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

Useful lives

Leasehold land	Over the lease period ranging from 80 to 99 years
Leasehold buildings	25 to 40 years
Leasehold improvements	3 to 7 years
Tooling and equipment	3 to 5 years
Office equipment	3 years
Motor vehicles	5 years

FRS 16: 51, 61

The residual value, useful lives and depreciation method are reviewed at the end of each reporting period, and adjusted prospectively, if appropriate.

FRS 16: 67, 68
FRS 16: 71

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in profit or loss in the year the asset is derecognised.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

Help tips

(i) Components of cost

FRS 16: 16(a), (b)

The cost of an item of PPE initially recognised includes its purchase price and any costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

FRS 16: 16(c)

Cost may include the projected cost of dismantlement, removal or restoration if such obligation is incurred as a consequence of either acquiring the asset or using the asset for purposes other than to produce inventories. Cost may also include borrowing costs and any other fair value gains or losses on qualifying cash flow hedges of PPE that are transferred from the hedging reserve.

(ii) Computer software license and development costs

FRS 38: 4

Computer software license and development costs shall be accounted for as intangible assets under FRS 38 when they are not an integral part to the related hardware. Computer software that is an integral part to the related hardware shall be accounted for as a component of the part of the related hardware using FRS 16.

(iii) Spare parts and servicing equipment

FRS 16: 6, 8

Items such as spare parts, stand-by equipment and servicing equipment are recognised as PPE only if they meet the definition of PPE, i.e. tangible items that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
- (b) are expected to be used during more than one period.

Otherwise, they are classified as inventory.

(iv) Component approach to depreciation

FRS 16: 7, 13, 14
FRS 16: 44

An entity allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates separately each significant part if those parts have different useful lives. These parts of some items of PPE may require replacement at regular intervals. The entity capitalises the cost of the replacements when (i) it is probable that future economic benefits associated with the item will flow to the entity; and (ii) the cost of the item can be reliably measured. The carrying amount of the replaced parts is derecognised on disposal or when no future economic benefits are expected from its use or disposal.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

Help tips (Continued)

(iv) Component approach to depreciation (Continued)

If the amount is material, an illustrative disclosure is as follows:

The (specific class of plant and equipment) are subject to overhauls at regular intervals. The inherent components of the initial overhaul are determined based on the estimated costs of the next overhaul and are separately depreciated over a period of (years) in order to reflect the estimated intervals between two overhauls. The costs of the overhauls subsequently incurred are capitalised as additions and the carrying amounts of the replaced components are written off to profit or loss.

2.6 Investment properties

FRS 40: 5, 6, 8(e)

Investment properties are properties that are either owned by the Company or leased under a finance lease that are held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties. Properties held under operating leases are classified as investment properties when the definition of an investment property is met.

FRS 40: 20

Investment properties are initially measured at cost, including transaction costs.

FRS 40: 33,35

Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Help tips

FRS 40: 14, 75(c)

Judgement is needed to determine whether a property qualifies as investment property. When classification is difficult, the entity should disclose the criteria developed by the entity so that it can exercise that judgement consistently in accordance with the definition of investment property.

FRS 40: 30, 56

Alternatively, the entity may adopt the cost model which is to measure investment properties at cost less accumulated depreciation and accumulated impairment losses. In these circumstances, disclosure about the cost basis and depreciation rates would be required. This option is not available if the entity accounts for property interest held under an operating lease as investment property.

FRS 40: 79(e)

In addition, for any investment properties recorded at cost, FRS 40 requires disclosure about the fair value, including disclosures about the methods and significant assumptions used to determine the fair value. Therefore, entities would still need to determine the fair value of the investment properties. In the exceptional cases when an entity cannot measure the fair value of investment properties reliably, it shall disclose:

- (a) a description of the investment properties;
- (b) an explanation of why fair value cannot be measured reliably; and
- (c) if possible, the range of estimate within which fair value is highly likely to lie.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.7 Impairment of non-financial assets

- FRS 36: 9 The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, (or, where applicable, when an annual impairment testing for an asset is required), the Company makes an estimate of the asset's recoverable amount.
- FRS 36: 18, 22
FRS 36: 30, 31 An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.
- FRS 36: 59
- FRS 36: 60 Impairment losses are recognised in profit or loss.
- FRS 36: 114
FRS 36: 117 A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.
- FRS 36: 119

2.8 Joint venture

- FRS 111: 4, 7 A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
- FRS 111: 14 A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement.
- FRS 111: 15, 16 To the extent the joint arrangement provides the Company with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Company with rights to the net assets of the arrangement, the arrangement is a joint venture.
- FRS 28: 16, 32 The Company recognises its interest in joint venture as an investment and accounts for the investment using the equity method from the date on which it becomes a joint venture.
- FRS 28: 32 On acquisition of the investment, any excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities represents goodwill and is included in the carrying amount of the investment. Any excess of the Company's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the joint venture's profit or loss in the period in which the investment is acquired.
- FRS 28: 10 Under the equity method, the investment in joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the joint venture. The profit or loss reflects the share of results of the operations of the joint venture. Distributions received from the joint venture reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the joint venture, the Company recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Company and the joint venture are eliminated to the extent of the interest in the joint venture.
- FRS 28: 28

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.8 Joint venture (Continued)

- FRS 28: 38** When the Company's share of losses in the joint venture equals or exceeds its interest in the joint venture, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.
- FRS 28: 40** After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in joint venture. The Company determines at the end of each reporting period whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in profit or loss.
- FRS 28: 42**
- FRS 28: 33, 35** The financial statements of the joint venture are prepared as the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

Help tips

(i) Loans to joint venture

- FRS 28: 38** The interest in a joint venture is the carrying amount of the investment in the joint venture under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that joint venture. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans.

(ii) Joint venture with different year end

- FRS 28: 33, 34** The financial statements of the joint venture are prepared as of the same reporting date as the Company unless it is impracticable to do so. When the financial statements of a joint venture used in applying the equity method are prepared as of a different reporting date from that of the Company, adjustments are made for the effects of significant transactions or events that occur between that date and the reporting date of the Company. In any case, the difference between the end of the reporting period of the joint venture and that of the investor shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

- FRS 112: 22(b)** When the financial statements of a joint venture used in applying the equity method are as of a reporting date or for a period that is different from that of the Company, the reporting date of the financial statements of the joint venture and the reason for using a different reporting date or different period shall be disclosed.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments

These accounting policies are applied on and after the initial application date of FRS 109, 1 January 2018:

(a) Financial assets

Initial recognition and measurement

FRS 109: 3.1.1 Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

FRS 109: 5.1.1 At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

FRS 109: 5.1.3 Trade receivables are measured at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Investments in debt instruments

FRS 109: 5.2.1 Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are amortised cost, FVOCI and FVPL. The Company only has debt instruments at amortised cost.

FRS 109: 4.1.2 Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through the amortisation process.

Investments in equity instruments

FRS 109: 4.1.4
FRS 109: 5.7.5
FRS 109: 5.7.6
FRS 109: 5.7.1 On initial recognition of an investment in equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income which will not be reclassified subsequently to profit or loss. Dividends from such investments are to be recognised in profit or loss when the Company's right to receive payments is established. For investments in equity instruments which the Company has not elected to present subsequent changes in fair value in other comprehensive income, changes in fair value are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

(a) Financial assets (Continued)

Derecognition

FRS 109: 3.2.3

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

(b) Financial liabilities

Initial recognition and measurement

FRS 109: 3.1.1

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition.

FRS 109: 5.1.1

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at FVPL, directly attributable transaction costs.

Subsequent measurement

FRS 109: 5.7.2

After initial recognition, financial liabilities that are not carried at FVPL are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

FRS 109: 3.3.1
FRS 109: 3.3.4

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

These accounting policies are applied before the initial application date of FRS 109, 1 January 2018:

(a) Financial assets

Initial recognition and measurement

FRS 39: 14
FRS 39: 9

Financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial assets at initial recognition.

FRS 39: 43

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at FVPL, directly attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

(a) Financial assets (Continued)

Subsequent measurement

FRS 39: 45

Loans and receivables

FRS 39: 9, 46(a), 56

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

Loans and receivables comprise loan to the holding company, trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents comprise cash at banks and on hand.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets which are not classified as held-to-maturity investments, loans and receivables or financial assets at FVPL.

FRS 39: 55(b)

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

Derecognition

FRS 39: 17, 26

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received (and, where applicable, any cumulative gain or loss that has been recognised in other comprehensive income) is recognised in profit or loss.

(b) Financial liabilities

Initial recognition and measurement

FRS 39: 14

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition.

FRS 39: 43

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at FVPL, directly attributable transaction costs.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

(b) Financial liabilities (Continued)

Subsequent measurement

FRS 39: 47, 56

After initial recognition, financial liabilities that are not carried at FVPL are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Such financial liabilities comprise trade and other payables, and borrowings.

Derecognition

FRS 39: 39, 40, 41

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Help tips

Where applicable, consider including the following illustrative accounting policies:

(i) Debt instruments at fair value through other comprehensive income (FVOCI)

FRS 109: 4.1.2A

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

(ii) Debt instruments at fair value through profit or loss (FVPL)

FRS 109: 4.1.4

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

Help tips (Continued)

(iii) Financial liabilities at fair value through profit or loss which are held for trading

FRS 109: 4.2.1(a)

Financial liabilities at FVPL include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at FVPL are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

(iv) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivatives are recognised in profit or loss.

(v) Offsetting of financial instruments

FRS 32: 42

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:

- (a) currently has a legally enforceable right to set off the recognised amounts; and*
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.*

(vi) Current/ Non-current classification of borrowings

Borrowings are presented as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the reporting date. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.

Where the entity expects, and has the discretion, to re-finance or roll over an obligation for at least 12 months after the reporting period under an existing loan facility with the same lender, the liability is classified as non-current.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets

These accounting policies are applied on and after the initial application date of FRS 109, 1 January 2018:

FRS 109: 5.5.1

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

FRS 109: 5.5.3
FRS 109: 5.5.5

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

FRS 109: 5.5.15
FRS 109: B5.5.35

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment which could affect debtors' ability to pay.

FRS 107: 35F(b)
FRS 109: 5.5.9
FRS 109: B5.5.37

The Company considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

FRS 109: B5.4.9

Help tips

(i) Simplified approach for trade receivables and contract assets

FRS 109: 5.5.15
FRS 109: 5.5.16

An entity is required to apply the simplified approach for trade receivables or contract assets that do not contain a significant financing component, or when the entity applies the practical expedient for contracts that have a maturity of one year or less. However, an entity has a policy choice to apply either the simplified approach or the general approach for the following:

- (a) All trade receivables or contract assets that contain a significant financing component in accordance with FRS 115. The policy choice may be applied separately to trade receivables and contract assets.
- (b) All lease receivables that result from transactions that are within the scope of FRS 17 *Leases* and FRS 116 (when applied). The policy choice may be applied separately to finance and operating lease receivables.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets (Continued)

Help tips (Continued)

(ii) Debt instruments at fair value through other comprehensive income

If the Company has debt instruments at FVOCI, consider including the following illustrative accounting policy:

For debt instruments at FVOCI, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the debt instrument. In addition, the Company considers that there has been a significant increase in credit risk when the contractual payments are more than xx days past due.

These accounting policies are applied before the initial application date of FRS 109, 1 January 2018:

FRS 39: 58

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

Financial assets carried at amortised cost

FRS 39: 64

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

FRS 39: 63

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

FRS 39: 63
FRS 107: AG.B5(d)

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying amount of the financial asset.

FRS 39: 59
FRS 107: AG.B5(f)

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

FRS 39: 65

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2.11 Cash and cash equivalents

FRS 7: 6, 8, 46

Cash and cash equivalents comprise cash at banks and on hand which are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Company's cash management.

2.12 Inventories

FRS 2: 9, 10, 25

FRS 2: 36(a)

FRS 2: 6

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

When necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Help tips

Entities may consider to further elaborate the costs of purchase as stated in the illustrative disclosure below if applicable. The disclosure should be tailored accordingly.

FRS 2: 11

Costs of purchase comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

2.13 Provisions

(a) General

FRS 37: 14

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

FRS 37: 59

FRS 37: 45, 46, 47

FRS 37: 60

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.13 Provisions (Continued)

(b) Warranty provisions

FRS 37: 36

Provisions for assurance-type warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

2.14 Government grants

FRS 20: 39(a)
FRS 20: 7
FRS 20: 23, 24
FRS 20: 26

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual installments.

FRS 20: 10A

Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

2.15 Borrowing costs

FRS 23: 8

All borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss in the period in which they are incurred.

2.16 Employee benefits

(a) Defined contribution plans

FRS 19: 8, 51

The Company makes contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

(b) Short-term employee benefits

FRS 19: 11

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.17 Leases

(a) As lessee

FRS 17: 8
FRS 17: 20

Finance leases which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

FRS 17: 25

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.17 Leases (Continued)

(a) As lessee (Continued)

FRS 17: 27 Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

**FRS 17: 33
INT FRS 15: 5** Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(b) As lessor

**FRS 17: 8
FRS 17: 52** Leases in which the Company does not transfer substantially all the risks and rewards of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income.

FRS 17: 50 Rental income arising from operating leases on the Company's investment properties is accounted for on a straight-line basis over the lease terms. The aggregate costs of incentives provided to lessees are recognised as a reduction of rental income over the lease term on a straight-line basis. Contingent rents are recognised as revenue in the period in which they are earned.

2.18 Revenue

These accounting policies are applied on and after the initial application date of FRS 115, 1 January 2018:

FRS 115: 47 Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

FRS 115: 31, 32, 73 Revenue is recognised when the Company satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(a) Sale of machinery and parts

FRS 115: 119(c) The Company sells machinery and parts.

FRS 115: 119(a) Revenue is recognised when the goods are delivered to the customer and all criteria for acceptance have been satisfied. The goods are often sold with a right of return and with retrospective volume rebates based on the aggregate sales over a period of time.

FRS 115: 119(b) The amount of revenue recognised is based on the transaction price, which comprises the contractual price, net of the estimated volume rebates and adjusted for expected returns. Based on the Company's experience with similar types of contracts, variable consideration is typically constrained and is included in the transaction only to the extent that it is a highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.18 Revenue (Continued)

(a) Sale of machinery and parts (Continued)

FRS 115: 119(d)
FRS 115: 55
FRS 115: B21, B23

The Company recognises the expected volume rebates payable to customer where consideration have been received from customers and refunds due to expected returns from customers as refund liabilities. Separately, the Company recognises a related asset for the right to recover the returned goods, based on the former carrying amount of the good less expected costs to recover the goods, and adjust them against cost of sales correspondingly.

FRS 115: 59
FRS 115: B24

At the end of each reporting date, the Company updates its assessment of the estimated transaction price, including its assessment of whether an estimate of variable consideration is constrained. The corresponding amounts are adjusted against revenue in the period in which the transaction price changes. The Company also updates its measurement of the asset for the right to recover returned goods for changes in its expectations about returned goods.

FRS 115: B25

FRS 115: 129
FRS 115: 94

The Company has elected to apply the practical expedient to recognise the incremental costs of obtaining a contract as an expense when incurred where the amortisation period of the asset that would otherwise be recognised is one year or less.

(b) Rendering of services

FRS 115: 119(c)

The Company installs machinery and parts. The rendering of installation service is either sold separately or in bundled packages with the sale of machinery and parts. For bundled packages, the Company accounts for the sale of machinery and parts, and installation service separately. The transaction price is allocated to the sale of machinery and parts and installation services based on their relative stand-alone selling prices. Revenue from rendering of the installation services and related handling fees is recognised when the services have been performed and rendered.

FRS 115: 119(a)

(c) Warranty services

FRS 115: 119(e)
FRS 115: B29

The Company offers customers the option to separately purchase extended warranty for machinery sold. The extended warranty is a distinct service to the customer in addition to the assurance that the product complies with agreed-upon specifications. These service-type warranties are bundled together with the sale of machinery. Contracts for bundled sales of machinery and service-type warranty comprise two performance obligations because the promises to deliver the machinery and to provide the warranty are capable of being distinct. The portion of the transaction price allocated to the warranty is initially recognised as a contract liability. Revenue is recognised over the period in which the warranty services are provided.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

2. Summary of significant accounting policies (Continued)

2.18 Revenue (Continued)

Help tips

(i) Disclosures on performance obligations

FRS 115: 119

FRS 115:119 sets out the disclosures required about an entity's performance obligations in contracts with customers, including a description of all of the following:

- (a) when the entity typically satisfies its performance obligations (e.g. upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;
- (b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained);
- (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e. if the entity is acting as an agent);
- (d) obligations for returns, refunds and other similar obligations; and
- (e) types of warranties and related obligations.

Each entity needs to tailor the disclosures based on its specific circumstances.

(ii) Assurance-type versus service-type warranty

FRS 115: B28-B30

In this illustration, the Company provides service-type warranty (i.e. the warranty is a distinct service in addition to the assurance that the product complies with agreed-upon specifications) which is a separate performance obligation to which the Company allocates a portion of the transaction price under FRS 115.

This is to be distinguished from assurance-type warranty which is not a distinct service and is accounted for as a provision for warranty under FRS 37.

Where applicable, consider including the following illustrative accounting policies:

(iii) Bill-and-hold arrangements

FRS 115: B79-B82

In some bill-and-hold arrangements, even though the Company has not yet delivered the goods to the customer, it has satisfied its performance obligation as control of the good has been transferred to the customer, and all of the following criteria are met: the reason for the bill-and-hold arrangement is substantive, the product is identified separately as belonging to the customer, the product currently is ready for physical transfer to the customer, and the Company does not have the ability to use the good or to direct it to another customer.

2. Summary of significant accounting policies (Continued)

2.18 Revenue (Continued)

Help tips (Continued)

(iv) Consignment arrangements

FRS 115: B77, B78

In some consignment arrangements, although the good has been delivered to the customer, the Company retains control of the good and satisfies its performance obligation only upon the sale of the good to the end-customer of the customer.

(v) Entity acting as agent

FRS 115: B34-B38

The Company acts as an agent to provide a service of arranging for another party to transfer goods or services to a customer. The Company recognises a commission fee, being the net amount of consideration that the Company retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

These accounting policies are applied before the initial application date of FRS 115, 1 January 2018:

FRS 18: 9, 10, 14, 20
FRS 18: 29, 35(a)

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

(a) Sale of machinery and parts

FRS 18: 14

Revenue from sale of machinery and parts is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) Rendering of services

FRS 18: 20

Revenue from rendering of services and handling fees is recognised when the services have been performed and rendered.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.19 Taxes

(a) Current income tax

FRS 12: 5, 46

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

FRS 12: 58, 61(A)

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

FRS 12: 5

Deferred tax is provided using the liability method on temporary differences at the end of the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

FRS 12: 47

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

FRS 12: 74

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Help tips

Where applicable, consider including the following illustrative accounting policies:

Deferred tax liabilities are recognised for all temporary differences, except:

FRS 12: 22(c)

- *where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and*

FRS 12: 39

- *in respect of taxable temporary differences associated with interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.*

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

FRS 12: 24

- *where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and*

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.19 Taxes (Continued)

Help tips (Continued)

FRS 12: 44

- *in respect of deductible temporary differences associated with interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.*

FRS 12: 56

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(c) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.20 Share capital

FRS 32: 37

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

Help tips

Where applicable, consider including the following illustrative accounting policies:

FRS 37: 10

Contingencies

A contingent liability is:

- (a) *a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or*
- (b) *a present obligation that arises from past events but is not recognised because:*
 - (i) *it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or*
 - (ii) *the amount of the obligation cannot be measured with sufficient reliability.*

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

2. Summary of significant accounting policies (Continued)

2.20 Share capital (Continued)

Help tips (Continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

3. Significant accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

FRS 1: 122

3.1 Judgements made in applying accounting policies

(a) Determination of functional currency

FRS 21: 9

In determining the functional currency of the Company, judgement is used by the Company to determine the currency of the primary economic environment in which the Company operates. Consideration factors include the currency that mainly influences sales prices of goods and services and the currency of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services.

FRS 115: 123
FRS 115: 22

(b) Identification of performance obligations in a bundled sale of machinery and parts and installation service

The Company provides installation services that are either sold separately or in bundled packages with the sale of machinery and parts to a customer. The installation services are part of the negotiated exchange between the Company and the customer.

FRS 115: 27, 29

The Company determined that the machinery and parts and installation are capable of being distinct. The fact that the Company regularly sells machinery and parts and installation on a stand-alone basis indicates that the customer can benefit from the products on their own. The Company also determined that the promises to deliver the machinery and parts and to provide installation are distinct within the context of the contract. The machinery and parts and installation are not inputs to a combined item in the contract. The Company is not providing a significant integration service because the presence of the machinery and parts and installation together in this contract do not result in any additional or combined functionality and neither the machinery and parts nor the installation modify or customise the other. In addition, the machinery and parts and installation are not highly interdependent or highly interrelated, because the Company would be able to deliver the machinery and parts even if the customer declined installation and would be able to provide installation in relation to products sold by other distributors. Consequently, the Company allocated a portion of the transaction price to the machinery and parts and the installation services based on relative stand-alone selling prices.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

3. Significant accounting judgements and estimates (Continued)

3.1 Judgements made in applying accounting policies (Continued)

Help tips

Where no significant judgements and estimates are made, consider including the following illustrative disclosure:

Management is of the opinion that there are no significant judgements made in applying accounting estimates and policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.2 Key sources of estimation uncertainty

Help tips

Entities should consider whether disclosures required under FRS 1:129 are met.

FRS 1: 125

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

(a) Inventory valuation method

Inventory write-down is made based on the current market conditions, historical experience and selling goods of similar nature. It could change significantly as a result of changes in market conditions. A review is made periodically on inventories for excess inventories, obsolescence and declines in net realisable value and an allowance is recorded against the inventory balances for any such declines. The realisable value represents the best estimate of the recoverable amount and is based on the most reliable evidence available and inherently involves estimates regarding the future expected realisable value. The carrying amount of the Company's inventories as at 31 December 2018 was \$7,966,000 (2017: \$4,776,000). If the future expected realisable value lower by 10% of its carrying amount, the carrying amount of the Company's inventory would have been \$797,000 lower.

(b) Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

3. Significant accounting judgements and estimates (Continued)

3.2 Key sources of estimation uncertainty (Continued)

(b) Provision for expected credit losses of trade receivables (Continued)

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 28(a).

The carrying amount of the Company's trade receivables as at 31 December 2018 was \$9,198,000 (1 January 2018: \$7,744,000, 2017: \$7,766,000).

Help tips

[Expected credit loss](#)

FRS 107:35G(b) requires an entity to disclose how forward-looking information has been incorporated into the determination of ECL, including the use of macroeconomic information. The Company did not provide detailed information on how the forecast economic conditions have been incorporated in the determination of ECL because the impact is not significant. Entities are expected to provide more detailed information if the forward-looking information has a significant impact in the calculation of ECL.

FRS 107: 35G(b)

(c) Revaluation of investment properties

The Company carries its investment properties at fair value, with changes in fair values being recognised in profit or loss. The Company engaged real estate valuation experts to assess fair value as at 31 December 2018. The fair values of investment properties are determined by independent real estate valuation experts using the market comparable. The key assumptions used to determine the fair value of these investment properties and sensitivity analysis are provided in Note 27.

The carrying amount of the Company's investment properties as at 31 December 2018 was \$3,800,000 (2017: \$3,450,000).

(d) Estimation of variable consideration for sale of machinery and parts

Certain contracts for the sale of machinery and parts include a right of return and volume rebates that give rise to variable consideration. In estimating variable consideration, the Company is required to use either the expected value method or the most likely amount method. Judgement is required in determining which method better predicts the amount of consideration to which it will be entitled. The method and assumptions used in determining variable consideration and assessing constraint is disclosed in Note 4(b).

The Company updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Company's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As at 31 December 2018, the amount recognised as refund liabilities for the expected returns and volume rebates was \$146,000 (1 January 2018: \$351,000, 2017: nil).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

3. Significant accounting judgements and estimates (Continued)

3.2 Key sources of estimation uncertainty (Continued)

(e) Provision for warranty

The provision for warranty is based on estimates from known and expected warranty work to be performed after sale of goods. The actual warranty expense incurred could differ from the provision made. The carrying amount of the Company’s provision for warranty as at 31 December 2018 was \$688,000 (2017: \$679,000). If the future expected warranty claims increased by 10%, the carrying amount of the Company’s provision for warranty would have been \$69,000 higher.

Further details of provision for warranty are discussed in Note 23 to the financial statements.

Help tips

In this illustration, it is assumed that these are the significant judgements/estimates made in applying the accounting policies, in deriving the financial statements of the Company.

If an entity has other judgements/estimates, which are deemed to be relevant and have significant effect on the financial statements, it should be disclosed accordingly.

4. Revenue

FRS 115: 114, 115

(a) Disaggregation of revenue

	2018	2017
	\$'000	\$'000
<u>Type of good or service</u>		
Sale of machinery	31,844	27,312
Sale of machinery parts	10,614	10,621
Installation service	12,760	9,483
Warranty service	107	-
	55,325	47,416
<u>Timing of transfer of good or service</u>		
At a point in time	55,218	47,416
Over time	107	-
	55,325	47,416

(b) Judgement and methods used in estimating revenue

Estimating variable consideration

FRS 115: 126

In estimating the variable consideration for the sale of machinery and parts, the Company uses the expected value method to predict the volume rebates and product returns by the different product types. For existing products, management relies on historical experience with purchasing patterns and product returns of customers, analysed by different product types and customers, for the past 2 to 4 years. For new products, management uses the historical trends for purchasing patterns and returns for similar products, and adjusted for higher return rates based on historical trends for new product launches, so as to determine the projection for new product returns.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

4. Revenue (Continued)

(b) Judgement and methods used in estimating revenue (Continued)

Estimating variable consideration (Continued)

FRS 115: 123

Management has exercised judgement in applying the constraint on the estimated variable consideration that can be included in the transaction price. For volume rebates, management has determined that a portion of the estimated variable consideration is subject to the constraint as, based on past experience with the customers, it is highly probable that a significant reversal in the cumulative amount of revenue recognised will occur, and therefore will not be recognised as revenue. For product returns, management considers its historical experience and evidence from other similar contracts to develop an estimate of variable consideration for expected returns using the expected value method.

(c) Contract liabilities

FRS 115: 117

Contract liabilities relate to the Company's obligation to provide warranty services to customers for which the Company has received advances from customers for extended warranty purchased for sale of machinery. Contract liabilities are recognised as revenue over the period the warranty services are provided. Revenue recognised in 2018 which was included in the contract liabilities balance at the beginning of the year was \$79,000.

FRS 115: 116(b), 118

FRS 115: 116(c)

Revenue recognised in 2018 from performance obligation satisfied in previous years due to changes in the transaction price was \$28,000.

(d) Refund liabilities

	2018 \$'000	2017 \$'000
Arising from retrospective volume rebates	98	-
Arising from rights of return	48	-
	146	-

(e) Transaction price allocated to remaining performance obligations

FRS 115: 120

The aggregate amount of transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations as at 31 December 2018 is \$270,000. The Company expects to recognise \$105,000 as revenue relating to the transaction price allocated to the unsatisfied (or partially unsatisfied) performance obligations as at 31 December 2018 in the financial year 2019, \$112,000 in the financial year 2020 and \$53,000 in the financial year 2021.

Help tips

(i) Disaggregation of revenue

FRS 115: 114

Under FRS 115:114, an entity is required to disaggregate revenue 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.

FRS 115: B87

The extent to which an entity's revenue is disaggregated depends on the facts and circumstances of its contracts with customers. Some entities may need to use more than one type of category while other entities may use only one type of category to disaggregate revenue. Hence the disclosure should be tailored accordingly for each entity.

4. Revenue (Continued)

Help tips (Continued)

(i) Disaggregation of revenue (Continued)

FRS 115: B89

Examples of categories that can be used as basis for disaggregation include:

- (a) type of good or service (e.g. major product lines)
- (b) geographical regions
- (c) market or customer type
- (d) type of contract (e.g. fixed-price and time-and-materials contracts)
- (e) contract duration (e.g. short-term and long-term contracts)
- (f) timing of transfer of goods or services (e.g. at a point in time or over time)
- (g) sales channels (e.g. sold directly to consumers or sold through intermediaries)

FRS 115: B88

When selecting the type of category to disaggregate revenue, an entity should consider how information about its revenue has been presented for other purposes, for example, annual reports or investor presentations, and information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments.

(ii) Methods, inputs and assumptions in determining revenue

FRS 115: 126

FRS 115:126 sets out the disclosures required about the methods, inputs and assumptions used for determining its transaction price and amounts allocated to performance obligations, including all of the following:

- (a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;
- (b) assessing whether an estimate of variable consideration is constrained;
- (c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and
- (d) measuring obligations for returns, refunds and other similar obligations.

Each entity needs to tailor the disclosures based on its specific circumstances.

(iii) Estimate of variable consideration

FRS 115: 53

In this illustration, variable consideration is estimated using the expected value method. FRS 115:53 requires the use of either the “expected value” method or the “most likely amount” method, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled. If the “most likely amount” method is used, the disclosure should be tailored accordingly.

4. Revenue (Continued)

Help tips (Continued)

(iv) Significant judgement in applying FRS 115

FRS 115: 123

An entity is required to disclose the judgements, and changes in the judgements made in applying FRS 115 that significantly affect the determination of the amount and timing of revenue from contracts with customers. Each entity needs to tailor the disclosures based on its specific circumstances.

In particular, an entity is required to explain the judgements, and changes in the judgements, used in determining both of the following:

- (a) the timing of satisfaction of performance obligations; and
- (b) the transaction price and the amounts allocated to performance obligations.

(v) Transaction price allocated to remaining performance obligations

FRS 115: 120

FRS 115:120 allows the disclosure to be in the form of either qualitative explanation or quantitative explanation that is based on the time bands that would be most appropriate for the duration of the remaining performance obligations. In this illustration, the Company has disclosed a qualitative explanation.

FRS 115: 121

No disclosure of transaction price allocated to remaining performance obligations in accordance with FRS 115:120 is necessary if either of the following conditions is met:

- (a) the performance obligation is part of a contract that has an original expected duration of one year or less; or
- (b) revenue is recognised based on the entity's right to invoice the customer in the amount that corresponds directly with the value of the entity's performance completed to date in accordance with FRS 115:B16.

FRS 115: 122

When the practical expedient in FRS 115:121 is applied, FRS 115:122 requires disclosure of such application. Qualitative disclosure of whether any consideration from contracts with customers is not included in the transaction price (e.g. due to constraint on estimate of variable consideration) and, therefore, not included in the information disclosed is also required.

ABC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

5. Other income

		2018 \$'000	2017 \$'000
FRS 107: 20(b)	Interest income from loan to the holding company	35	28
	Handling fees	410	446
	Government grants	10	8
FRS 40: 75(f)(i)	Rental income from investment properties (Note 10)	96	85
FRS 40: 76(d)	Net fair value gains on investment properties (Note 10)	350	118
FRS 107: 20(a)(i)	Net fair value gains on investment securities (Note 12)	33	-
		934	685

Interest income is recognised using the effective interest method.

Handling fees relate to amounts charged to customers for preparing and shipping the machinery to the customers' premises.

6. Finance costs

		2018 \$'000	2017 \$'000
	Interest expense on:		
FRS 107: 20(a)(v)	- Bank borrowings and bank overdrafts	55	72
FRS 107: 20(a)(v)	- Obligations under finance leases	25	-
		80	72
FRS 107: 20(b)	Interest expense on financial liabilities not measured at fair value through profit or loss (Note 29)	80	72
		80	72

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

7. Profit before tax

Profit before tax has been arrived at after charging/(crediting):

		2018 \$'000	2017 \$'000
FRS 40: 75(f)	Direct operating expenses arising from investment properties (Note 10)	35	28
	Employee benefits expense:		
FRS 1: 104	- Salaries, bonuses and other costs	8,473	7,650
FRS 1: 104	- Contributions to Central Provident Fund	955	769
	Impairment loss/(reversal of impairment loss) on financial assets	113	(88)
	- Trade receivables (Note 16)		
FRS 1: 98(c)	Loss/(gain) on disposal of property, plant and equipment	280	(263)
	Net foreign exchange loss/(gain)	98	(169)
FRS 17: 35(c)	Operating lease expense (Note 26(b))	650	600
FRS 1: 98(a)	Reversal of write-down of inventories (Note 15)	(150)	-
FRS 1: 97	Advertising expense	560	432
FRS 1: 97	Commission expense	889	740

Help tips

(i) Direct operating expenses arising from investment properties

FRS 40: 75(f)

If applicable, direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period and direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period should be disclosed separately.

(ii) Impairment loss on financial assets

In this illustration, the Company only recognised impairment loss on trade receivables. The Company has assessed and measured the impairment loss allowance for its other financial assets (other receivables and loan to the holding company) and determined that the ECL is insignificant (Note 28(a)).

FRS 109: 5.5

The impairment requirements in FRS 109: 5.5 apply to financial assets measured at amortised cost, financial assets measured at FVOCI, lease receivables, contract assets, loan commitments and financial guarantee contracts. Each entity needs to assess and determine the impairment required under FRS 109. FRS 1: 82(ba) requires the statement of profit or loss to include impairment loss (including reversals of impairment loss or impairment gain) determined in accordance with FRS 109: 5.5 as a separate line item. The breakdown of impairment loss by financial assets can be disclosed in the notes.

FRS 1: 82(ba)

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

8. Income tax expense

The major components of income tax expense recognised in profit or loss for the years ended 31 December 2018 and 2017 were:

	2018	2017
	\$'000	\$'000
Current income tax		
FRS 12: 80(a) - Current year	1,989	1,635
FRS 12: 80(b) - Under/(over)provision in respect of prior years	259	(308)
	<u>2,248</u>	<u>1,327</u>
Deferred income tax		
FRS 12: 80(c), (f) - Origination and reversal of temporary differences (Note 20)	110	200
	<u>110</u>	<u>200</u>
Income tax expense recognised in profit or loss	<u>2,358</u>	<u>1,527</u>

The major components of income tax expense recognised in other comprehensive income for the years ended 31 December 2018 and 2017 were:

	2018	2017
	\$'000	\$'000
Deferred income tax		
FRS 12: 81(ab) - Net fair value gains on equity instruments at fair value through other comprehensive income	11	-
- Net fair value gains on available-for-sale financial assets	-	12
	<u>11</u>	<u>12</u>
Income tax expense recognised in other comprehensive income	<u>11</u>	<u>12</u>

Relationship between tax expense and accounting profit

FRS 12: 81(c)(i) A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the financial years ended 31 December 2018 and 2017 were as follows:

	2018	2017
	\$'000	\$'000
Profit before tax	<u>9,355</u>	<u>7,994</u>
Income tax using the statutory tax rate of 17% (2017: 17%)	1,590	1,359
Adjustments:		
Non-deductible expenses	864	890
Income not subject to tax	(335)	(384)
Income tax rebate	(20)	(30)
Under/(over)provision in respect of prior years	259	(308)
	<u>2,358</u>	<u>1,527</u>
Income tax expense recognised in profit or loss	<u>2,358</u>	<u>1,527</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

8. Income tax expense (Continued)

The Singapore Government has announced that for Years of Assessment (YA) 2019 and 2018, all companies will receive a 20% and 40% Corporate Income Tax (CIT) Rebate that is subject to a cap of \$10,000 and \$15,000 respectively.

Help tips

Deferred income tax

Unrecognised tax losses and capital allowances

If an entity has unrecognised tax losses and capital allowances, a suggested disclosure is as follows:

Deferred income tax assets are recognised for tax losses and capital allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Company has unrecognised tax losses of \$_____ (2017: \$_____) and capital allowances of \$_____ (2017: \$_____) at the reporting date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements. The tax losses have no expiry date. The capital allowances will expire between [year] and [year].

FRS 12: 81(e), 82

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

9. Property, plant and equipment

FRS 1: 78(a)		Leasehold land \$'000	Leasehold buildings \$'000	Leasehold improvements \$'000	Tooling and equipment \$'000	Office equipment \$'000	Motor vehicles \$'000	Total \$'000
	Cost							
FRS 16: 73(d)	At 1 January 2017	7,000	3,810	1,600	1,020	350	200	13,980
FRS 16: 73(e)(i)	Additions	-	490	200	400	556	500	2,146
FRS 16: 73(e)(ii)	Disposals	-	-	-	-	(287)	(200)	(487)
FRS 16: 73(d)	At 31 December 2017	<u>7,000</u>	<u>4,300</u>	<u>1,800</u>	<u>1,420</u>	<u>619</u>	<u>500</u>	<u>15,639</u>
FRS 16: 73(d)	At 1 January 2018	7,000	4,300	1,800	1,420	619	500	15,639
FRS 16: 73(e)(i)	Additions	-	-	588	816	120	-	1,524
FRS 16: 73(e)(ii)	Disposals	-	-	-	(620)	(428)	-	(1,048)
FRS 16: 73(d)	At 31 December 2018	<u>7,000</u>	<u>4,300</u>	<u>2,388</u>	<u>1,616</u>	<u>311</u>	<u>500</u>	<u>16,115</u>
	Accumulated depreciation							
FRS 16: 73(d)	At 1 January 2017	1,520	1,173	1,383	680	412	200	5,368
FRS 16: 73(e)(vii)	Depreciation	280	379	290	450	78	50	1,527
FRS 16: 73(e)(ii)	Disposals	-	-	-	-	(150)	(200)	(350)
FRS 16: 73(d)	At 31 December 2017	<u>1,800</u>	<u>1,552</u>	<u>1,673</u>	<u>1,130</u>	<u>340</u>	<u>50</u>	<u>6,545</u>
FRS 16: 73(d)	At 1 January 2018	1,800	1,552	1,673	1,130	340	50	6,545
FRS 16: 73(e)(vii)	Depreciation	298	423	300	359	108	100	1,588
FRS 16: 73(e)(ii)	Disposals	-	-	-	(120)	(428)	-	(548)
FRS 16: 73(d)	At 31 December 2018	<u>2,098</u>	<u>1,975</u>	<u>1,973</u>	<u>1,369</u>	<u>20</u>	<u>150</u>	<u>7,585</u>
	Carrying amount							
	At 31 December 2017	<u>5,200</u>	<u>2,748</u>	<u>127</u>	<u>290</u>	<u>279</u>	<u>450</u>	<u>9,094</u>
	At 31 December 2018	<u>4,902</u>	<u>2,325</u>	<u>415</u>	<u>247</u>	<u>291</u>	<u>350</u>	<u>8,530</u>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

9. Property, plant and equipment (Continued)

Assets held under finance leases

- FRS 7: 43** During the financial year, the Company acquired motor vehicles with an aggregate cost of nil (2017: \$500,000) by means of finance leases. The cash outflow on acquisition of property, plant and equipment amounted to \$1,524,000 (2017: \$1,646,000).
- FRS 17: 31(a)** The carrying amount of motor vehicles held under finance leases at the end of the reporting period was \$350,000 (2017: \$450,000).
- FRS 16: 74(a)** Leased assets are pledged as security for the related finance lease liabilities.

Assets pledged as security

- FRS 16: 74** During the previous financial year, leasehold land and buildings with carrying amount of \$7,948,000 were mortgaged to secure bank borrowings (Note 21). The mortgage was discharged during the financial year.

Help tips

- (i) Property, plant and equipment in the course of construction**
- FRS 16: 74(b)** Where applicable, the amount of expenditure on PPE in the course of construction should be disclosed.
- (ii) Classification of borrowing costs capitalised into cost of qualifying assets**
- FRS 23: 26** The classification of payments of interest that are capitalised shall be classified in a manner consistent with the classification of the underlying asset to which those payments were capitalised. For example, payments of interest that are capitalised as part of cost of PPE should be classified as part of an entity's investing activities; payments of interest that are capitalised as part of the cost of inventories should be classified as part of an entity's operating activities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

10. Investment properties

		2018 \$'000	2017 \$'000
FRS 40: 76	At 1 January	3,450	3,332
FRS 40: 76(d)	Net fair value gains on investment properties	350	118
	At 31 December	<u>3,800</u>	<u>3,450</u>

The Company's investment properties consist of a car park and two residential properties in Singapore. Management has determined that the investment properties consist of two classes of asset, i.e. car park and residential properties, based on the nature, characteristics and risks of each property.

FRS 40: 75(a)
FRS 40: 75(e)

Investment properties are stated at fair value, which has been determined based on valuations performed as at 31 December 2018 and 31 December 2017. The valuations were performed by Chartered Surveyors Pte Ltd, an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the properties being valued. Details of valuation techniques and inputs used are disclosed in Note 27.

The investment properties are leased to third parties under operating leases, further summary details of which are included in Note 26(c) to the financial statements.

Help tips

Valuation of investment properties

FRS 40: 77

When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities, the entity should disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.

FRS 40: 75(e)

If there has been no such valuation performed by an independent valuer, that fact should be disclosed.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

11. Investment in a joint venture

FRS 112: 21

The Company has 50% (2017: 50%) interest in the ownership and voting rights in a joint venture, XYZ JV Co. Ltd. This joint venture is incorporated in People's Republic of China and is in the business of selling machinery. The Company jointly controls the venture with another partner under a contractual agreement and requires unanimous consent for all major decisions over the relevant activities.

FRS 112: 21(b)(ii)
FRS 112: B12, B13

Summarised financial information in respect of XYZ JV Co. Ltd. based on its FRS financial statements, and reconciliation with the carrying amount of the investment in the financial statements are as follows:

Summarised statement of financial position

	2018	2017
	\$'000	\$'000
Inventories	233	206
Right of return assets	12	-
Trade receivables	106	123
Cash and cash equivalents	132	168
Current assets	483	497
Non-current assets excluding goodwill	662	608
Goodwill	50	50
Non-current assets	712	658
Total assets	1,195	1,155
Current liabilities	(200)	(236)
Non-current liabilities	(417)	(399)
Total liabilities	(617)	(635)
Net assets	578	520
Net assets excluding goodwill	528	470
Proportion of the Company's ownership	50%	50%
Company's share of net assets	264	235
Goodwill on acquisition	50	50
Carrying amount of investment	314	285
	2018	2017
	\$'000	\$'000
The above amounts include the following:		
- Current financial liabilities (excluding trade and other payables and provisions)	-	-
- Non-current financial liabilities (excluding trade and other payables and provisions)	29	35

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

11. Investment in a joint venture (Continued)

Summarised statement of profit or loss and other comprehensive income

	2018	2017
	\$'000	\$'000
Revenue	238	232
Cost of sales	(96)	(95)
Operating expenses	(48)	(51)
Depreciation	(24)	(24)
Interest income	-	-
Interest expense	(10)	(10)
Profit before tax	60	52
Income tax expense	(2)	(2)
Profit after tax	58	50
Other comprehensive income	-	-
Total comprehensive income	<u>58</u>	<u>50</u>

FRS 112: 23

The Company's share of the joint venture's capital commitments in respect of property, plant and equipment as at 31 December 2018 is \$50,000 (2017: \$25,000). The joint venture has no contingent liabilities.

Help tips

(i) Exemptions from applying the equity method

FRS 28: 17-19

In this illustration, the joint venture is accounted for using the equity method. FRS 28 *Investments in Associates and Joint Ventures* provides exemption from applying the equity method if all the following apply:

- (a) the entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.
- (b) the entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
- (c) the entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

11. Investment in a joint venture (Continued)

Help tips (Continued)

(ii) **Loans to joint venture**

(a) If the entity has loan to joint venture which in substance, form part of the entity's net investment in the joint venture, a suggested disclosure is as follows:

	2018	2017
	\$'000	\$'000
<i>Investment, at cost</i>		
<i>Share of post-acquisition results</i>		
<i>Loan to joint venture</i>		
<i>Carrying amount of investment</i>		

The loan to joint venture is unsecured, interest-free and has no fixed repayment terms. Such loan is considered by the directors as an extension of the Company's investment in the joint venture.

(b) Where the loan to joint venture represents a financial asset due from the joint venture and the loan has no fixed terms of repayment, the entity should estimate the fair value upon recognition by discounting the expected future cash flows at the prevailing interest rate, taking into account the expected date of repayment. The entity should also include the relevant disclosures under FRS 109.

FRS 107: 7, 31

12. Investment securities

Financial instruments as at 31 December 2018

		2018 \$'000
FRS 107: 8(a)(i)	At fair value through profit or loss - Equity securities (quoted)	210
FRS 107: 8(h)(ii)	At fair value through other comprehensive income - Equity securities (unquoted)	656
		866

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

12. Investment securities (Continued)

Financial instruments as at 31 December 2018 (Continued)

FRS 107: 11A

The fair values of each of the investments in unquoted equity securities designated at fair value through other comprehensive income at the end of the reporting period were as follows:

		2018 \$'000
FRS 107: 11A(a) FRS 107: 11A(c)	At fair value through other comprehensive income	
	- Equity securities (unquoted)	
	DEF Pte Ltd	409
	GHI Pte Ltd	247
		656

FRS 107: 11A(b)

The Company has elected to measure these unquoted equity securities at fair value through other comprehensive income due to the Company's intention to hold these equity securities for long-term appreciation.

Help tips

Categories of financial assets and financial liabilities

FRS 107: 8

FRS 107 requires disclosure of the carrying amounts of financial instruments under each of the categories in FRS 109, either on the face of the statement of financial position or in the notes. The categories of financial instruments include:

- (a) financial assets measured at FVPL, showing separately
 - (i) those designated as such upon initial recognition; and
 - (ii) mandatorily measured at FVPL in accordance with FRS 109
- (b) financial liabilities at FVPL, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and financial liabilities measured at amortised cost
- (c) financial assets measured at amortised cost
- (d) financial liabilities measured at amortised cost
- (e) financial assets measured at FVOCI, showing separately
 - (i) financial assets that are measured at FVOCI in accordance with FRS 109: 4.1.2A; and
 - (ii) investments in equity instruments designated as such upon initial recognition in accordance with FRS 109: 5.7.5.

In this illustration, the disclosure requirement is met in the respective notes to the financial statements (refer to this note and Note 29). Alternatively, the disclosure of the carrying amounts of financial instruments under each of the classifications in FRS 109 may be presented in a separate centralised note.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

12. Investment securities (Continued)

FRS 107: 7, 31

Financial instruments as at 31 December 2017

	2017 \$'000
FRS 107: 8(d) Available-for-sale financial assets	
- Equity securities (quoted)	177
- Equity securities (unquoted)	373
- Equity securities (unquoted), at cost	150
	700
	700

An unquoted available-for-sale investment was stated at cost because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably. Management has no intention to dispose of the investment in the foreseeable future.

The quoted equity securities were classified and measured as financial assets at fair value through profit or loss and the unquoted equity securities were classified and measured at fair value through other comprehensive income beginning 1 January 2018.

Help tips

(i) Categories of financial assets and financial liabilities

FRS 107: 8

FRS 107 requires disclosure of the carrying amounts of financial instruments under each of the classification in FRS 39, either on the face of the statement of financial position or in the notes. The categories of financial instruments include financial assets and financial liabilities that are classified as held for trading, those that are designated upon initial recognition as financial assets or financial liabilities at FVPL, held-to-maturity investments, loans and receivables, available-for-sale financial assets, and financial liabilities measured at amortised cost.

(ii) Impairment loss

If an entity recognised impairment loss on its available-for-sale investments, a suggested disclosure is as follows:

During the year ended 31 December 2017, impairment loss of \$_____ and \$_____ were provided on the above quoted equity securities and unquoted equity securities respectively due to there being a significant or prolonged decline in the fair values of the equity securities below their cost [Or other objective evidence that is applicable]. The Company treats "significant" generally as X% and "prolonged" as greater than X months.

13. Loan to the holding company

FRS 24: 18(b), 19(a)
FRS 107: 31

The loan to the holding company is unsecured and bears interest at 3-month SIBOR + 1.5% (2017: 3-month SIBOR + 1.5%) per annum. The effective interest rate was 3.1% (2017: 2.6%) per annum. The first repayment of \$1,020,000 was on 30 November 2018 and the remainder is repayable on 30 November 2020.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

14. Other receivables

Other receivables are security deposits paid in relation to leases of warehouses. These deposits are refundable to the Company at the end of the lease term.

15. Inventories

	2018	2017
	\$'000	\$'000
Statement of financial position:		
FRS 1: 78(c) FRS 2: 37	Machinery and parts	7,966 4,776
Statement of profit or loss:		
FRS 2: 36(d)	Inventories recognised as an expense in cost of sales	28,142 24,268
	Inclusive of:	
FRS 2: 36(f)	- Reversal of write-down of inventories	(150) -
FRS 2: 36(g)	The reversal of write-down of inventories was due to the inventories being sold above the carrying amounts in 2018.	

Help tips

FRS 2: 36(f),(g)

The entity is required to disclose the amount of any reversal of any write-down that was recognised as a reduction in the amount of inventories recognised as expense in the period the write-down occurred, the circumstances of inventories recognised as expense and the circumstances or events leading to such reversals.

Inventories classifications

FRS 2: 37

Disclosure is required of the total carrying amount of inventories and further sub-classifications as appropriate to the entity's operations. Common classifications of inventories are trading merchandise, production supplies, materials, work-in-progress and finished goods. The inventories of a service provider may simply be described as work-in-progress.

16. Trade receivables

	2018	2017
	\$'000	\$'000
FRS 1: 77, 78(b)	Trade receivables:	
	- Third parties	6,906 5,918
FRS 24: 18(b)	- Holding company	1,034 1,855
FRS 24: 18(b)	- Related companies	1,900 500
		9,840 8,273
	Less: Allowance for impairment	(642) (507)
		9,198 7,766

FRS 107: 7, 31

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms.

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

16. Trade receivables (Continued)Receivables that were impaired

The Company's trade receivables that were impaired as at 31 December 2017 and the movements of the allowance accounts used to record the impairment were as follows:

	2017 \$'000
FRS 107: 37(b) FRS 107: IG29(b)	
Trade receivables - nominal amounts	694
Less: Allowance for impairment	<u>(507)</u>
	<u>187</u>
FRS 107: 16	
Movement in allowance accounts:	
At 1 January	595
Allowance made	-
Reversal of allowance	<u>(88)</u>
At 31 December	<u>507</u>
FRS 107: 37(b) FRS 107: 36(b)	
Trade receivables that were determined to be impaired at the end of the reporting date relate to debtors that were in significant financial difficulties and had defaulted on payments. These receivables were not secured by any collateral or credit enhancements.	
<u>Expected credit losses</u>	
FRS 107: 35H	
The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL was as follows:	
	2018 \$'000
Movement in allowance accounts:	
At 31 December 2017 under FRS 39	507
Effect of adopting FRS 109 (Note 2.2)	<u>22</u>
At 1 January 2018 under FRS 109	529
Allowance made	<u>113</u>
At 31 December 2018	<u>642</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

16. Trade receivables (Continued)

Help tips

Receivables subject to offsetting arrangements

If an entity has offsetting arrangements, a suggested disclosure is as follows:

The Company regularly purchases machinery parts from its related companies and sell machinery to its related companies. Both parties have an arrangement to settle the net amount due to or from each other on a 60-days term basis.

The Company's trade receivables and trade payables that are off-set are as follows:

	31 December 2018 \$'000		
	<i>Gross carrying amounts before offsetting</i>	<i>Amounts offset</i>	<i>Net amounts in the statement of financial position</i>
Description			
<i>Trade receivables</i>			
<i>Trade payables</i>			
	31 December 2017 \$'000		
Description			
<i>Trade receivables</i>			
<i>Trade payables</i>			

FRS 107: 13C(a)
FRS 107: 13C(b)
FRS 107: 13C(c)

17. Cash and short-term deposits

	2018 \$'000	2017 \$'000
Cash at banks	6,848	3,775
Cash on hand	1	1
Pledged deposits	350	-
	7,199	3,776

FRS 107: 7, 31
FRS 107: 7, 31

Pledged deposits are for a tenure of 60 to 90 days which have been pledged to banks to secure bank overdraft facilities.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

17. Cash and short-term deposits (Continued)

For the purpose of presenting the statement of cash flows, cash and cash equivalents comprise the following at the end of the financial year:

	2018 \$'000	2017 \$'000
Cash and short-term deposits	7,199	3,776
Pledged deposits	(350)	-
Bank overdrafts (Note 21)	(200)	-
	6,649	3,776

Help tips

(i) Cash not available for use

FRS 7: 48, 49

There may be circumstances in which cash and bank balances held by the Company are not available for use by the Company. When this occurs, the amount and the nature of the restrictions placed upon their use must be disclosed:

Included in cash and cash equivalents are bank deposits amounting to \$_____ (2017: \$_____) which are not freely remissible for use by the Company because of currency exchange restrictions.

FRS 1: 66(d)

Cash and cash equivalents which are restricted in its use for more than twelve months shall be classified as non-current assets.

(ii) Bank deposits pledged

FRS 7: 6

Bank deposits pledged as collateral shall not be included as cash and cash equivalents in the statement of cash flows.

(iii) Cash equivalents for the purpose of presenting statement of cash flows

FRS 7: 6-9

Under FRS 7, cash equivalents are defined as short-term highly liquid investments that are readily convertible to a known amount of cash which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a short maturity of, say, three months or less from the date of acquisition.

18. Share capital

	2018		2017	
	No of shares '000	\$'000	No of shares '000	\$'000
Issued and fully paid ordinary shares				
At 1 January and 31 December	1,000	1,000	1,000	1,000

FRS 1: 79(a)(ii), (iv)

FRS 1: 79(a)(iii), (v)

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

19. Fair value reserve

FRS 1: 79(b)

Fair value reserve represents the cumulative fair value changes, net of tax, of equity securities at fair value through other comprehensive income until they are disposed of or impaired.

20. Deferred tax liabilities

FRS 12: 81(g)

Movements in deferred tax assets/(liabilities) during the financial year were as follows:

	At 1 January 2017 \$'000	Recognised in profit or loss (Note 8) \$'000	At 31 December 2017/ 1 January 2018 \$'000	Recognised in profit or loss (Note 8) \$'000	At 31 December 2018 \$'000
Deferred tax assets/(liabilities)					
Differences in depreciation for tax purposes	(1,040)	(170)	(1,210)	(150)	(1,360)
Others	50	(30)	20	40	60
	<u>(990)</u>	<u>(200)</u>	<u>(1,190)</u>	<u>(110)</u>	<u>(1,300)</u>

FRS 12: 81(f)

At the end of the reporting period, no deferred tax liability (2017: nil) has been recognised for taxes that would be payable on the undistributed earnings of the Company's joint venture as the joint venture of the Company cannot distribute its earnings until it obtains the consent of both the joint venturers. At the end of the reporting period, the Company does not foresee giving such consent.

21. Borrowings

FRS 107: 7, 31

	2018 \$'000	2017 \$'000
Current:		
- Obligations under finance leases (Note 26(d))	95	90
- Bank overdrafts	200	-
- Bank borrowings	-	2,476
	<u>295</u>	<u>2,566</u>
Non-current:		
- Obligations under finance leases (Note 26(d))	315	410
	<u>610</u>	<u>2,976</u>

Obligations under finance leases

These obligations are secured by a charge over the leased assets (Note 9). The average discount rate implicit in the leases is 5% (2017: 5%) per annum.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

21. Borrowings (Continued)

Bank overdrafts

The bank overdrafts are secured by the Company's fixed deposits. The weighted average effective interest rate is 3.0% (2017: 2.6%) per annum.

Bank borrowings

The bank borrowings were fully repaid during the financial year. The weighted average effective interest rate is 2.90% (2017: 2.86%) per annum.

The bank borrowings were secured by a mortgage over leasehold land and buildings and were denominated in Singapore Dollar. The mortgage was discharged during the financial year.

FRS 7.44A-44D

A reconciliation of liabilities arising from financing activities excluding bank overdrafts is as follows:

	1 January	Cash flows	Non-cash changes		31 December
	2018		Accretion of interests	Other	2018
	\$'000	\$'000	\$'000	\$'000	\$'000
Liabilities					
Obligations under finance leases					
- current	90	(115)	25	95	95
- non-current	410	-	-	(95)	315
Bank borrowings	2,476	(2,531)	55	-	-
	2,976	(2,646)	80	-	410
Asset					
Pledged deposits	-	350	-	-	350

	1 January	Cash flows	Non-cash changes			31 December
	2017		Acquisition	Accretion of interests	Other	2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Obligations under finance leases						
- current	-	-	90	-	-	90
- non-current	-	-	410	-	-	410
Bank borrowings						
- current	800	(872)	-	72	2,476	2,476
- non-current	2,476	-	-	-	(2,476)	-
	3,276	(872)	500	72	-	2,976

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

21. Borrowings (Continued)

Help tips

(i) Defaults or breaches of covenants on borrowings

FRS 107 requires additional disclosures in the event of defaults or breaches on borrowings.

Illustrative disclosure

Some of the Company's loan agreements (classified as non-current during the year) are subject to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Company did not fulfil the debt/equity ratio as required in the contract for a bank facility of \$_____, of which the Company has currently drawn an amount of \$_____.

Due to this breach of the covenant clause, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount of \$_____. The outstanding balance is presented as a current liability as at 31 December 2018.

The bank had not requested early repayment of the loan as of the date when these financial statements were approved by the Board of Directors. Management is in the process of renegotiating the terms of the loan arrangement with the bank and expects that a revised loan agreement will be in place in the second quarter of 2019.

In cases where the breaches on borrowings are rectified after the financial year end but before the financial statements are approved for issue, such disclosure would still need to be disclosed in the financial statements.

(ii) Changes in liabilities arising from financing activities

FRS 7: 44A

FRS 7:44A requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

FRS 7: 44D

The illustration has illustrated one way to fulfil the disclosure requirement by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes required by FRS 7:44B, namely:

FRS 7: 44B

- (a) changes from financing cash flows,
- (b) changes arising from obtaining or losing control of subsidiaries or other businesses,
- (c) effect of changes in foreign exchange rates,
- (d) changes in fair values, and
- (e) other changes.

FRS 7: 44C

In addition, the disclosure requirement also applies to changes in financial assets, for example, assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

FRS 7: 44E

If an entity provides the disclosures required by FRS 7:44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

FRS 7: 60

An entity is not required to provide comparative information for preceding periods in the first year of application of the amendments.

ABC PTE. LTD.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

22. Other payables

	2018 \$'000	2017 \$'000
Current:		
FRS 1: 77 - GST payables	168	129
- Other payables	128	184
- Accrued expenses	278	163
	574	476
Non-current:		
- Other payables	24	24
	598	500

FRS 107: 31 Other payables (current) relate to non-trade payables to third parties. They are non-interest bearing and have an average term of 3 months.

Other payables (non-current) relate to security deposits refundable to the Company's tenants of its investment properties at the end of the lease term.

23. Provisions

FRS 1: 77, 78(d)
FRS 37: 85 A provision is recognised for expected warranty claims on machinery sold during the last two years, based on past experience of the level of returns. Assumptions used to calculate the provision were based on current information available and to the best knowledge and experience of the management.

Movements in provision for warranty were as follows:

	\$'000
At 1 January 2017	578
Provision charged to profit or loss	262
Utilisation of provision	(161)
At 31 December 2017	679
Effect of adopting FRS 115 (Note 2.2)	(105)
FRS 37: 84(a) At 1 January 2018	574
FRS 37: 84(b) Provision charged to profit or loss	295
FRS 37: 84(c) Utilisation of provision	(181)
FRS 37: 84(a) At 31 December 2018	688

24. Trade payables

	2018 \$'000	2017 \$'000
FRS 1: 77 Trade payables to:		
- Third parties	3,194	2,689
FRS 24: 18, 19(d) - Related companies	2,054	1,384
	5,248	4,073

FRS 107: 31
FRS 24: 18 These amounts are non-interest bearing. Trade payables are normally settled on 60 days' terms.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

25. Significant related party transactions

Sale and purchase of goods and services

FRS 24: 18, 21

In addition to the related party information disclosed elsewhere in the financial statements, the following transactions with related parties took place at terms agreed between the parties during the financial year:

	2018	2017
	\$'000	\$'000
Sales to the holding company	8,997	9,584
Sales to related companies	9,732	7,319
Purchases from related companies	7,350	6,190
Interest income on loan to the holding company	35	28

Compensation of key management personnel

FRS 24: 17(a)

	2018	2017
	\$'000	\$'000
Salaries and bonuses	683	520
Employer's contribution to Central Provident Fund	82	52
Other benefits	54	36
	<u>819</u>	<u>608</u>

Help tips

(i) Definition of related party

A related party is defined as follows:

FRS 24: 9

- (a) A person or a close member of that person's family is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) both entities are joint ventures of the same third party.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

25. Significant related party transactions (Continued)

Help tips (Continued)

(i) Definition of related party (Continued)

- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
- (vi) the entity is controlled or jointly controlled by a person identified in (a).
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

FRS 24: 11

The following are not necessarily related parties:

- (a) two entities simply because they have a director or other member of key management personnel in common;
- (b) two venturers simply because they share joint control over a joint venture;
- (c) providers of finance, trade unions, public utilities, government departments and agencies, simply by virtue of their normal dealings with an entity; and
- (d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

(ii) Definition of key management personnel

FRS 24: 9

Key management personnel is defined as follows:

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

(iii) Examples of related party transactions

FRS 24: 21

The following are examples of transactions that are disclosed if they are with a related party:

- (a) purchases or sales of goods (finished or unfinished);
- (b) purchases or sales of property and other assets;
- (c) rendering or receiving of services;
- (d) leases;

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

25. Significant related party transactions (Continued)

Help tips (Continued)

(iii) Examples of related party transactions (Continued)

- (e) transfers of research and development;
- (f) transfers under licence agreements;
- (g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
- (h) provision of guarantees or collateral;
- (i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised); and
- (j) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

(iv) Materiality and nature of related party transactions

It is particularly important to consider the nature of related party transactions. For example, services may be provided free of charge to a related party and a conclusion on whether the services provided are material can only be made by considering the nature of the transactions. Examples of expenses arising from the provision of free services include management fees or key management compensation. If such an item is deemed material, the provision of these free services should also be disclosed.

(v) Components of key management personnel compensation

FRS 24: 9

Compensation includes all employee benefits (as defined under FRS 19 *Employee Benefits* and FRS 102 *Share-based Payment*) in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Where key management personnel compensation include share-based payments, this should be disclosed as a separate line item where material.

(vi) Arm's length transactions

FRS 24: 23

Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

(vii) Categories of disclosures

FRS 24: 19

Related party disclosures shall be made separately for each of the categories specified as follows:

- (a) the parent;
- (b) entities with joint control or significant influence over the entity;
- (c) subsidiaries;
- (d) associates;

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

25. Significant related party transactions (Continued)

Help tips (Continued)

(vii) Categories of disclosures (Continued)

- (e) joint ventures in which the entity is a venturer;
- (f) key management personnel of the entity or its parent; and
- (g) other related parties.

For transactions with 'other related parties', the entity shall disclose the nature of the related party relationship.

26. Commitments

(a) Capital commitments

The Company had commitments of \$300,000 (2017: \$200,000) relating to the purchase of tooling and equipment.

(b) Operating lease commitments – as lessee

FRS 17: 35(d)

The Company leases warehouses under non-cancellable operating lease agreements. These leases have an average tenure of between three and six years with an option to renew the lease after that date or contingent rent provision included in the contracts.

FRS 17: 35(a)

The future minimum rental payable under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	2018	2017
	\$'000	\$'000
Not later than one year	650	650
Later than one year but not later than five years	1,900	1,900
Later than five years	650	1,300
	3,200	3,850
	3,200	3,850

FRS 17: 35(c)

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2018 amounted to \$650,000 (2017: \$600,000).

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

26. Commitments (Continued)

(c) Operating lease commitments – as lessor

FRS 17: 56(c)

The Company leases its investment properties under non-cancellable operating lease agreements (Note 10). These leases are negotiated for terms ranging from two to eight years. The terms of the leases also require the tenants to pay a security deposit.

FRS 17: 56(a)

The future minimum rental receivable under non-cancellable operating leases contracted for at the reporting date are as follows:

	2018	2017
	\$'000	\$'000
Not later than one year	96	96
Later than one year but not later than five years	390	385
Later than five years	160	288
	646	769

(d) Finance lease commitments – as lessee

FRS 17: 31(e)

The Company leases its motor vehicles. These leases are classified as finance leases and have remaining lease terms of four years.

FRS 17: 31(b)

The future minimum lease payments under finance leases and their present values are as follows:

	Minimum lease payments 2018 \$'000	Minimum lease payments 2017 \$'000	Present value of minimum lease payments 2018 \$'000	Present value of minimum lease payments 2017 \$'000
Not later than one year	115	115	95	90
Later than one year but not later than five years	347	462	315	410
Total minimum lease payments	462	577	410	500
Future finance charges	(52)	(77)	-	-
Present value of minimum lease payments	410	500	410	500
Portion classified as current liabilities	(95)	(90)	(95)	(90)
Non-current portion	315	410	315	410

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

26. Commitments (Continued)

Help tips

Contingencies

Where applicable, include the following illustrative disclosures:

Financial guarantee contract liabilities

During the year, the Company provided financial guarantees to various banks in connection with the bank loans and other banking facilities granted to its related companies. As at the end of the reporting period, the banking facilities granted to the related companies subject to guarantees given to the banks were utilised to the extent of approximately \$_____ (2017: \$_____). Amounts included in liabilities in respect of the guarantees are disclosed in Note xx to the financial statements.

Legal claim

On [date], a customer has commenced an action against the Company in respect of products claimed to be sub-standard. The estimated payout is \$_____ should the action be successful. A trial date has not yet been set and therefore it is not practicable to state the timing of any payment. The Company has been advised by its legal counsel that it is possible, but not probable, that the action will succeed and accordingly no provision for any liability has been made in these financial statements.

27. Fair value of assets and liabilities

(a) Fair value hierarchy

FRS 113: 72

The Company categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

FRS 113: 76

- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Company can access at the measurement date,

FRS 113: 81

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and

FRS 113: 86

- Level 3 – Unobservable inputs for the asset or liability.

FRS 113: 73

Fair value measurements that use inputs of different hierarchy levels are 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

27. Fair value of assets and liabilities (Continued)

(b) Assets measured at fair value

FRS 113: 93(a), (b)

The following table shows an analysis of each class of assets measured at fair value at the reporting date:

	2018 \$'000			Total
	Fair value measurements at the reporting date using			
	Quoted prices in active markets for identical instruments	Significant observable inputs other than quoted prices	Significant unobservable inputs	
	(Level 1)	(Level 2)	(Level 3)	
Financial assets:				
At fair value through profit or loss - equity securities (quoted) (Note 12)	210	-	-	210
At fair value through other comprehensive income - equity securities (unquoted) (Note 12)	-	-	656	656
Financial assets as at 31 December 2018	210	-	656	866
Non-financial assets:				
Investment properties (Note 10)				
- Residential	-	-	3,000	3,000
- Car park	-	800	-	800
Non-financial assets as at 31 December 2018	-	800	3,000	3,800

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

27. Fair value of assets and liabilities (Continued)

(b) Assets measured at fair value (Continued)

FRS 113: 93(a), (b)

	2017 \$'000			Total
	Fair value measurements at the reporting date using			
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	
Financial assets:				
Available-for-sale financial assets - equity securities (quoted) (Note 12)	177	-	-	177
Available-for-sale financial assets - equity securities (unquoted) (Note 12)	-	-	373	373
Financial assets as at 31 December 2017	177	-	373	550
Non-financial assets:				
Investment properties (Note 10)				
- Residential	-	-	2,800	2,800
- Car park	-	650	-	650
Non-financial assets as at 31 December 2017	-	650	2,800	3,450

(c) Level 2 fair value measurements

FRS 113: 93(d)

The valuation of investment properties – car park is based on comparable market transactions that consider sales of similar properties that have been transacted in the open market.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

27. Fair value of assets and liabilities (Continued)

(d) Level 3 fair value measurements

(i) Information about significant unobservable inputs used in Level 3 fair value measurements

FRS 113: 93(d)

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3):

Description	Valuation techniques	Unobservable inputs	Range (weighted average) 2018	Range (weighted average) 2017
At fair value through other comprehensive income - equity securities (unquoted) / Available-for-sale financial assets - equity securities (unquoted)	Discounted cash flow	Cost of equity	5% to 10% (7.1%)	5% to 10% (7.1%)
		Dividend yield	3% to 7% (4.2%)	3% to 7% (4.2%)
		Discount for lack of marketability	5% to 15% (6.3%)	5% to 15% (6.3%)
Investment properties - residential	Market comparable approach	Yield adjustments based on management's assumptions*	10% to 22% (12%)	10% to 22% (12%)

*The yield adjustments are made for any difference in the nature, location or condition of the specific property.

FRS 113: 93(h)(ii)

For unquoted equity securities, a significant increase (decrease) in the expected dividend yield would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in discount for lack of marketability would result in a significantly lower (higher) fair value measurement. A change in assumption used for dividend yield may warrant a directionally opposite change in assumption for discount for lack of marketability.

If the discount for lack of marketability increase by 3% to 8% (2017: 3% to 8%), the carrying amount of the unquoted equity securities would decrease by approximately \$49,000 (2017: \$28,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

27. Fair value of assets and liabilities (Continued)

(d) Level 3 fair value measurements (Continued)

(ii) Movements in Level 3 assets measured at fair value

FRS 113: 93(e)

The following table presents the reconciliation for all assets measured at fair value based on significant unobservable inputs (Level 3):

	2018 \$'000		
	Fair value measurements using significant unobservable inputs (Level 3)		
	Unquoted equity securities	Investment properties - residential	Total
At 1 January 2018	591*	2,800	3,391
Net fair value gains recognised in profit or loss	-	200	200
Net fair value gains recognised in other comprehensive income	65	-	65
At 31 December 2018	656	3,000	3,656

	2017 \$'000		
	Fair value measurements using significant unobservable inputs (Level 3)		
	Unquoted equity securities	Investment properties - residential	Total
At 1 January 2017	325	2,695	3,020
Net fair value gains recognised in profit or loss	-	105	105
Net fair value gains recognised in other comprehensive income	48	-	48
At 31 December 2017	373**	2,800	3,173

(iii) Valuation policies and procedures

FRS 113: 93(g)

Each year, the directors of the Company decide which external valuer to be responsible for the external valuations of the Company's investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

Help tips

Reconciliation of unquoted equity securities

Measured at fair value as at 31 December 2017 (Note 12)	373**
Measured at cost as at 31 December 2017 under FRS 39 (Note 12)	150
Remeasurement upon adoption of FRS 109 (Note 2.2)	68
As at 1 January 2018	591*

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

27. Fair value of assets and liabilities (Continued)

(e) Assets and liabilities not measured at fair value

Cash and cash equivalents and other payables

The carrying amounts of these balances approximate their fair values due to the short-term nature of these balances.

Trade receivables and trade payables

The carrying amounts of these receivables and payables (including trade balances due from/to holding and related companies) approximate their fair values as they are subject to normal trade credit terms.

Loan to the holding company and bank borrowings

The carrying amounts of loan to the holding company and bank borrowings approximate their fair values as they are subject to interest rates close to market rate of interests for similar arrangements with financial institutions.

28. Financial risk management

FRS 107: 7, 31
FRS 107: 31-33
FRS 107 IG: 15

The Company's activities expose it to a variety of financial risks from its operations. The key financial risks include credit risk, liquidity risk and market risk (including interest rate risk and foreign currency risk).

The directors review and agree policies and procedures for the management of these risks, which are executed by the management team. It is, and has been throughout the current and previous financial year, the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

The following sections provide details regarding the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

FRS 107: 33(c), 40(c)

There has been no change to the Company's exposure to these financial risks or the manner in which it manages and measures the risks.

(a) Credit risk

FRS 107: 33, 36

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a loss to the Company. The Company's exposure to credit risk arises primarily from trade and other receivables and loan to the holding company. For other financial assets (including investment securities and cash), the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Company has adopted a policy of only dealing with creditworthy counterparties. The Company performs ongoing credit evaluation of its counterparties' financial condition and generally do not require a collateral.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

FRS 107: 35F(b)

The Company has determined the default event on a financial asset to be when internal and/or external information indicates that the financial asset is unlikely to be received, which could include default of contractual payments due for more than 60 days, default of interest due for more than 30 days or there is significant difficulty of the counterparty.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

28. Financial risk management (Continued)

(a) Credit risk (Continued)

FRS 107: 35B(a)
FRS 107: 35F

To minimise credit risk, the Company has developed and maintained the Company’s credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is supplied by publicly available financial information and the Company’s own trading records to rate its major customers and other debtors. The Company considers available reasonable and supportive forward-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor’s ability to meet its obligations
- Actual or expected significant changes in the operating results of the debtor
- Significant increases in credit risk on other financial instruments of the same debtor
- Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtors in the group and changes in the operating results of the debtor.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

The Company determined that its financial assets are credit-impaired when:

- There is significant difficulty of the debtor
- A breach of contract, such as a default or past due event
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

The Company categorises a receivable for potential write-off when a debtor fails to make contractual payments more than 120 days past due. Financial assets are written off when there is evidence indicating that the debtor is in severe financial difficulty and the debtor has no realistic prospect of recovery.

The Company’s current credit risk grading framework comprises the following categories:

Category	Definition of category	Basis for recognising expected credit loss (ECL)
I	Counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
II	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit-impaired
III	Amount is >60 days past due or there is evidence indicating the asset is credit-impaired (in default).	Lifetime ECL – credit-impaired
IV	There is evidence indicating that the debtor is in severe financial difficulty and the debtor has no realistic prospect of recovery.	Amount is written off

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

28. Financial risk management (Continued)

(a) Credit risk (Continued)

The table below details the credit quality of the Company's financial assets, as well as maximum exposure to credit risk by credit risk rating categories:

FRS 107: 35M, 35N
FRS 107: 36(a)

	Note	Category	12-month or lifetime ECL	Gross carrying amount \$'000	Loss allowance \$'000	Net carrying amount \$'000
31 December 2018						
Trade receivables	16	Note 1	Lifetime ECL (simplified)	9,840	(642)	9,198
Other receivables	14	I	12-month ECL	162	-	162
Loan to the holding company	13	I	12-month ECL	1,055	-	1,055
					(642)	
1 January 2018						
Trade receivables	16	Note 1	Lifetime ECL (simplified)	8,273	(529)	7,744
Other receivables	14	I	12-month ECL	162	-	162
Loan to the holding company	13	I	12-month ECL	2,075	-	2,075
					(529)	

Trade receivables (Note 1)

For trade receivables, the Company has applied the simplified approach in FRS 109 to measure the loss allowance at lifetime ECL. The Company determines the ECL by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of trade receivables is presented based on their past due status in terms of the provision matrix.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

28. Financial risk management (Continued)

(a) Credit risk (Continued)

	Trade receivables					
	Days past due					
	Not past due	≤30 days	31-60 days	61-90 days	>90 days	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
31 December 2018						
ECL rate	0.5%	3%	10%	15%	30%	
Estimated total gross carrying amount at default	4,680	1,784	1,428	1,078	870	9,840
ECL	(23)	(54)	(143)	(161)	(261)	(642)
						<u>9,198</u>
31 December 2017						
Total gross carrying amount	4,190	1,554	1,066	815	648	8,273
Allowance for impairment	-	-	(59)	(198)	(250)	(507)
						<u>7,766</u>

Information regarding loss allowance movement of trade receivables is disclosed in Note 16.

Excessive risk concentration

FRS 107: 34(c)

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

Exposure to credit risk

FRS 107: 34(c)

The Company has no significant concentration of credit risk other than those balances with holding company and related companies comprising 30% (2017: 28%) of trade receivables. The Company has credit policies and procedures in place to minimise and mitigate its credit risk exposure.

Other receivables and loan to the holding company

The Company assessed the latest performance and financial position of the counterparties, adjusted for the future outlook of the industry in which the counterparties operate in, and concluded that there has been no significant increase in the credit risk since the initial recognition of the financial assets. Accordingly, the Company measured the impairment loss allowance using 12-month ECL and determined that the ECL is insignificant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

28. Financial risk management (Continued)

(a) Credit risk (Continued)

Help tips

(i) Credit risk disclosures

The credit risk disclosures shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

- (a) information about an entity's credit risk management practices and how they relate to the recognition and measurement of ECL, including the methods, assumptions and information used to measure ECL;
- (b) the quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from ECL, including changes in the amount of ECL and the reasons for those changes; and
- (c) information about an entity's credit risk exposure (i.e. the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations.

An entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

For disclosures requirement above, an entity shall consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of the financial statements need additional explanations to evaluate the quantitative information disclosed.

(ii) Financial assets that are credit-impaired

In this illustration, the Company does not have financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit impaired and financial assets that are purchased on originated credit-impaired).

If an entity has such financial assets, the entity shall disclose:

- (a) the changes in the loss allowance and the reasons for those changes, provide by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period;
- (b) the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period; and
- (c) the gross carrying amount by credit risk rating category.

28. Financial risk management (Continued)

(a) Credit risk (Continued)

Help tips (Continued)

(iii) Collateral and other credit enhancements

In this illustration, the Company does not have any collateral and other credit enhancement which affects the amounts arising from ECL.

If an entity has any collateral and other credit enhancement which affects the amounts arising from ECL, the entity shall disclose by class of financial instrument:

- (a) a narrative description of collateral held as security and other credit enhancements, including:
 - (i) a description of the nature and quality of the collateral held;
 - (ii) an explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and
 - (iii) information about financial instruments for which an entity has not recognised a loss allowance because of the collateral.
- (b) quantitative information about the collateral held as security and other credit enhancements (for example, quantification of extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date.

(iv) Rebuttable presumption

In this illustration, the Company has applied the presumption in FRS 109: 5.5.11 that there have been significant increases in credit risk since initial recognition when a financial asset are more than 30 days past due. If an entity has rebutted the presumption, the entity has to disclose how an entity determine whether credit risk of financial instruments has increased significantly since initial recognition.

FRS 107: 35K

FRS 107: 35F(a)(ii)

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

28. Financial risk management (Continued)

(b) Liquidity risk

FRS 107: 33, 39

Liquidity risk refers to the risk that the Company will encounter difficulties in meeting its short-term obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. It is managed by matching the payment and receipt cycles. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. The Company finances its working capital requirements through a combination of funds generated from operations and bank borrowings. The directors are satisfied that funds are available to finance the operations of the Company.

FRS 107: 34, 39

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial assets and liabilities at the reporting date based on contractual undiscounted repayment obligations.

	2018			
	Carrying amount	Contractual cash flows	One year or less	One to five years
	\$'000	\$'000	\$'000	\$'000
<u>Financial assets</u>				
Loan to the holding company	1,055	1,097	-	1,097
Trade receivables	9,198	9,198	9,198	-
Other receivables	162	168	-	168
Cash and short-term deposits	7,199	7,199	7,199	-
Total undiscounted financial assets	<u>17,614</u>	<u>17,662</u>	<u>16,397</u>	<u>1,265</u>
<u>Financial liabilities</u>				
Trade payables	5,248	5,248	5,248	-
Other payables	598	599	574	25
Borrowings	610	662	315	347
Total undiscounted financial liabilities	<u>6,456</u>	<u>6,509</u>	<u>6,137</u>	<u>372</u>
Total net undiscounted financial assets	<u>11,158</u>	<u>11,153</u>	<u>10,260</u>	<u>893</u>
2017				
	Carrying amount	Contractual cash flows	One year or less	One to five years
	\$'000	\$'000	\$'000	\$'000
<u>Financial assets</u>				
Loan to the holding company	2,075	2,152	1,055	1,097
Trade receivables	7,766	7,766	7,766	-
Other receivables	162	168	-	168
Cash and short-term deposits	3,776	3,776	3,776	-
Total undiscounted financial assets	<u>13,779</u>	<u>13,862</u>	<u>12,597</u>	<u>1,265</u>
<u>Financial liabilities</u>				
Trade payables	4,073	4,073	4,073	-
Other payables	500	501	476	25
Borrowings	2,976	3,108	2,646	462
Total undiscounted financial liabilities	<u>7,549</u>	<u>7,682</u>	<u>7,195</u>	<u>487</u>
Total net undiscounted financial assets	<u>6,230</u>	<u>6,180</u>	<u>5,402</u>	<u>778</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

28. Financial risk management (Continued)

(b) Liquidity risk (Continued)

Help tips

Financial guarantees issued

FRS 107: AGB11C(c)

FRS 107 requires issued financial guarantee contracts to be recorded in the contractual maturity analysis based on the maximum amount guaranteed.

They are to be allocated to the earliest date they can be drawn down, irrespective of whether it is likely that those guarantees will be drawn or the amount that is expected to be paid.

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Interest rate risk

FRS 107: 33

Interest rate risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk arises primarily from their loan to holding company, cash and cash equivalents and borrowings.

The Company does not expect any significant effect on the Company's profit or loss arising from the effects of reasonably possible changes to interest rates on interest bearing financial instruments at the end of the financial year.

FRS 107: 40

At the reporting date, if the interest rates had been 50 (2017: 50) basis points higher/lower with all other variables held constant, the Company's profit before tax would have been \$35,000 (2017: \$10,000) higher/lower, arising mainly as a result of higher/lower interest income/expenses on floating rate cash at bank and floating rate bank borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

28. Financial risk management (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

Help tips

Where the entity holds various fixed rate and variable rate financial instruments, the entity may provide the following details.

Illustrative disclosure

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments was as follows:

	2018	2017
	\$'000	\$'000
Fixed rate instruments		
Financial assets		
Financial liabilities		
Variable rate instruments		
Financial assets		
Financial liabilities		

The sensitivity analysis is based on changes in the interest rates of variable rate financial instruments.

FRS 107: 42

The Company shall include explanations for material variances between 2017 and 2018 and/or increase (decrease) in the profit or loss and equity. In addition, where management believes that the sensitivity analyses are unrepresentative, please disclose the fact and the reason(s).

(ii) Foreign currency risk

FRS 107: 33

The Company's foreign exchange risk results mainly from cash flows from transactions denominated in foreign currencies. At present, the Company does not have any formal policy for hedging against currency risk. The Company ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates, where necessary, to address short term imbalances.

The Company has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the functional currency of the Company, primarily United States Dollar (USD) and Euro (EUR).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

28. Financial risk management (Continued)

(c) Market risk (Continued)

(ii) Foreign currency risk (Continued)

FRS 107: 34

The Company's currency exposures to the USD and EUR at the reporting date were as follows:

	2018		2017	
	USD \$'000	EUR \$'000	USD \$'000	EUR \$'000
<u>Financial assets</u>				
Trade receivables	2,998	-	1,976	-
Cash and cash equivalents	1,417	1,352	1,395	1,275
	<u>4,415</u>	<u>1,352</u>	<u>3,371</u>	<u>1,275</u>
<u>Financial liabilities</u>				
Trade payables	(2,679)	(523)	(2,133)	(210)
Other payables	(73)	-	(67)	-
	<u>(2,752)</u>	<u>(523)</u>	<u>(2,200)</u>	<u>(210)</u>
Currency exposures	<u>1,663</u>	<u>829</u>	<u>1,171</u>	<u>1,065</u>

FRS 107: 40

A 10% strengthening of Singapore Dollar against the foreign currencies denominated balances as at the reporting date would decrease profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss (after tax)	
	2018 \$'000	2017 \$'000
United States Dollar	138	97
Euro	<u>69</u>	<u>88</u>

A 10% weakening of Singapore Dollar against the above currencies would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

FRS 107: 6

29. Financial instruments by category

At the reporting date, the aggregate carrying amounts of financial assets at amortised cost and financial liabilities at amortised cost were as follows:

	2018	2017
	\$'000	\$'000
FRS 107: 8		
Financial assets measured at amortised cost		
Loan to the holding company (Note 13)	1,055	2,075
Trade receivables (Note 16)	9,198	7,766
Other receivables (Note 14)	162	162
Cash and short-term deposits (Note 17)	7,199	3,776
	<u>17,614</u>	<u>13,779</u>
Total financial assets measured at amortised cost	<u>17,614</u>	<u>13,779</u>
FRS 107: 8		
Financial liabilities measured at amortised cost		
Trade payables (Note 24)	5,248	4,073
Other payables (Note 22)	430	371
Borrowings (Note 21)	610	2,976
	<u>6,288</u>	<u>7,420</u>
Total financial liabilities measured at amortised cost	<u>6,288</u>	<u>7,420</u>

Help tips

FRS 32: AG12

Liabilities or assets that are not contractual (such as income taxes and GST that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

30. Capital management

FRS 1: 134, 135

The primary objective of the Company’s capital management is to ensure that it maintains a strong credit rating and net current asset position in order to support its business and maximise shareholder value. The capital structure of the Company comprises issued share capital and retained earnings.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company is not subject to any externally imposed capital requirements. No changes were made to the objectives, policies or processes during the financial years ended 31 December 2018 and 31 December 2017.

Help tips

Other entities may use different and/or more complex methods to monitor capital. An entity decides, in the light of its circumstances, which measures are more suitable to monitor its capital and how much detail it should disclose.

Where applicable, for example, if the Company monitors its capital using a gearing ratio, consider including the following illustrative disclosure:

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern in order to provide returns for its shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including trade and other payables as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the statement of financial position, plus net debts.

No specific gearing ratio has been determined by management with the overall objective to keep the ratio as low as possible and such policy has not been changed since the previous financial year.

The gearing ratios at 31 December 2018 and 2017 were as follows:

	2018	2017
	\$’000	\$’000
<i>Total trade and other payables and bank borrowings</i>		
<i>Less: Cash and cash equivalents</i>		
<i>Net debt</i>		
<i>Total equity</i>		
<i>Total capital</i>		
<i>Gearing ratio</i>		

The Company is not subject to any externally imposed capital requirements. The Company’s overall strategy remains unchanged from 2017.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

31. Events occurring after the reporting period

FRS 10: 21

On 2 May 2019, the Company declared a final exempt (one-tier) dividend of \$2 per share amounting to a total of \$2,000,000 for the financial year ended 31 December 2018. These financial statements do not reflect this dividend, which will be accounted for in the financial year ending 31 December 2019.

Help tips

The entity is required to disclose the nature of all material non-adjusting events that took place subsequent to the financial year-end and an estimate of the corresponding financial effect, or in the event that the estimate cannot be made, a statement disclosing the fact.

32. Comparative information

Help tips

(i) Illustrative disclosure on reclassification of expenses

FRS 1: 38, 41

During 2018, the Company modified the classification of depreciation expense on certain office space to reflect more appropriately the way in which economic benefits are derived from its use. Comparative amounts in the statement of profit or loss and other comprehensive income were restated for consistency. As a result, \$15,000 was reclassified from 'administrative and other expenses' to 'selling and distribution expenses'.

Since the amounts are reclassifications within the statement of profit or loss and other comprehensive income, this reclassification did not have any effect on the statements of financial position and cash flows.

(ii) Newly incorporated entities presenting their first set of accounts

The financial statements cover the period since incorporation on [] to []. These being the first set of accounts, there are no comparative figures.

(iii) Entities with unequal comparative financial periods

The financial statements for 2017 cover from period [] to [].

FRS 1: 36

(iv) Change in the financial year end

If the entity has changed the end of its financial year and presents its financial statements for a period longer or shorter than one year, the entity shall disclose, in addition to the period covered by the financial statements:

- (a) the reason for using a longer or shorter period; and
- (b) the fact that amounts presented in the financial statements are not entirely comparable.

32. Comparative information (Continued)

Help tips (Continued)

(iv) Change in the financial year end (Continued)

An illustrative disclosure is as follows:

Comparative figures

The current financial period comprises [] months from [date] to [date] as the Company changed its financial year end from [date] to [date].

The audited comparative figures presented in the financial statements are not entirely comparable as they cover a period from [date] to [date].

FRS 1: 36

33. Authorisation of financial statements for issue

The financial statements for the financial year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors of the Company on 30 May 2019.

FRS 10: 17

ABC PTE. LTD.

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018**

(Illustrating the analysis of expenses by nature)

	Note	2018 \$'000	2017 \$'000
Revenue	4		
<i>Other items of income</i>			
Interest income			
Other income	5	_____	_____
<i>Other items of expense</i>			
Changes in inventories of finished goods and work-in-progress			
Raw material and consumables used			
Employee benefits expense			
Depreciation and amortisation expense			
Impairment of property, plant and equipment			
Other expenses			
Finance costs	6	_____	_____
Profit before tax	7		
Income tax expense	8	_____	_____
Profit for the year, representing total comprehensive income for the year		=====	=====

Contributors:



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Should you have any comments and suggestions, please send them to auditquality@isca.org.sg.

Contributors:



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