

EXTRACT OF NOTES TO THE FINANCIAL STATEMENTS

Note 2 : Significant accounting policies

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 30 June 2014 comprise the company and its subsidiaries (together referred to as the “group”) and the group’s interests in an associate and joint ventures. The measurement basis used in the preparation of the financial statements is the historical cost basis except as set out in the accounting policies below.

As set out in note 26 to the consolidated financial statements, in August 2014, the bondholder (BCA, as defined in note 26) issued an enforcement notice and alleged that an event of default had occurred under the Bond (as defined in note 26), namely that the company had failed to pay interest for the interest period from 1 April 2014 to 30 June 2014, and claimed the redemption amount and the default interest payable under the terms of the Bond. Subsequently, receivers were appointed by BCA to take over management of Fung Choi Printing Limited, which owns all the subsidiaries of the printing, supply chain management and packaging business segments and certain subsidiaries of the commercial displays business segment of the group, on 2 September 2014. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the group’s ability to continue as a going concern and, therefore, that the group may be unable to realize its assets and discharge its liabilities in the normal course of business.

The group is in the process of discussing with BCA to derive a repayment plan for the Bond and it has also been liaising with its bankers to gain their continuing support. Based on assumption of ongoing support from its bankers and the continuation of its business activities in the normal course of business, the management expects to have sufficient financial resources to fulfil the receivers’ demands and settle the Bond and to cover its operating costs and to meet its financial commitments as and when they fall due. Accordingly, the consolidated financial statements have been prepared on a going concern basis which contemplates the realisation of assets and the satisfaction of liabilities in the normal course of business. Should the group be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the

judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

Note 26 : Bond

	<i>The group</i>		<i>The company</i>	
	<i>2014</i>	<i>2013</i>	<i>2014</i>	<i>2013</i>
	'000	'000	'000	'000
Unlisted bond issued, at fair value	\$ 282,721	\$ 275,402	\$ 282,721	\$ 275,402

On 1 December 2012, the company entered into a subscription agreement (the “Subscription Agreement”) with BCA Best Business Service Limited (“BCA”) under the terms of which the company agreed to issue and BCA agreed to subscribe for a RMB denominated US dollar settled bond in an aggregate principal amount of RMB188,700,000 (equivalent to \$234,701,000), at an issue price of 100% (the “Bond”), which would be due in 2016.

The proceeds from the issue of the Bond were used to make partial repayment of interest bearing loans and borrowings.

The Bond was guaranteed by subsidiaries of the company and companies in which directors have substantial financial interests.

Under the terms of the Subscription Agreement, the Bond has a term of four years and bears interest at a rate of 9.0% per annum payable quarterly. The Bond shall be redeemed in full on the fourth anniversary of the issue date at an amount equal to 126.66% of the US dollar equivalent of the RMB principal amount, except upon occurrence of an early redemption event as provided in the Subscription Agreement where the Bond shall be subject to the following redemption premium:

- (i) From the issue date on 14 December 2012 to the second anniversary date: 112.54% of the principal amount redeemed;
- (ii) From second anniversary to the third anniversary date: 119.39% of the principal amount redeemed; and
- (iii) From third anniversary to the fourth anniversary date: 126.66% of the principal amount redeemed.

The Bond is subject to the fulfilment of covenants relating to certain of the group's consolidated statement of financial position ratios, as are commonly found in other similar transaction arrangements. If the group were to breach the covenants the Bond would become payable on demand. As at 30 June 2014, certain covenants relating to the Bond had been breached and therefore the Bond has become due and payable.

At 30 June 2014, the Bond is designated at fair value through profit or loss. Any gains and losses arising from changes in fair value are included in the profit or loss in the period in which they arise. Please refer to note 28(e) for the movement of bond during the year.

Event of default and appointment of receivers

In May 2014, BCA alleged that an event of default had occurred under the terms of the Bond. In June 2014, a memorandum of understanding was entered into to restructure the terms and conditions of the Bond and a waiver fee of US\$600,000 (equivalent to \$4,656,000) was paid to BCA. Subsequently, a deed of amendment was entered into with BCA and the terms and conditions of the Bond were amended in July 2014, which include (i) additional guarantees provided by High Rank Development Limited, the immediate holding company of Fung Choi Printing Limited, and directors of the company; and (ii) a share mortgage in respect of Fung Choi Printing Limited.

In August 2014, BCA issued an enforcement notice and alleged that an event of default had occurred under the terms of the Bond, namely that the company had failed to pay interest for the interest period from 1 April 2014 to 30 June 2014, and claimed the redemption amount and the default interest payable under the terms of the Bond.

Subsequently, receivers were appointed by BCA to take over management of Fung Choi Printing Limited on 2 September 2014. The board of directors is currently taking legal advice as to the effect of the appointment of receivers over Fung Choi Printing Limited and its underlying companies.

On 19 September 2014, the redemption amount claimed by BCA amounted US\$40,815,000 (equivalent to \$316,724,000).