

**Example Directors' Report,  
Auditor's Report and  
Illustrative Financial  
Statements for Private Entities  
prepared in accordance with  
the HKFRS for Private Entities  
(with Hong Kong Companies  
Ordinance disclosures)**



Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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### **REFERENCES TO THE HONG KONG COMPANIES ORDINANCE**

S49	Section 49 "Power to issue redeemable shares"
S123	Section 123 "General provisions as to contents and form of accounts"
S125	Section 125 "Form of group accounts"
S126	Section 126 "Contents of group accounts"
S128	Section 128 "Particulars to be shown in company's accounts in relation to subsidiaries"
S129	Section 129 "Particulars to be shown in company's accounts in relation to companies not being subsidiaries whose shares it holds"
S157	Section 157 "Validity of acts of directors"
S161	Section 161 "Particulars in accounts of directors' emoluments, pensions, etc."
10SCH	Tenth Schedule "Accounts"

**Example Directors' Report, Auditor's Report and Illustrative Financial Statements for Private Entities prepared in accordance with the HKFRS for Private Entities (with Hong Kong Companies Ordinance disclosures)**

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## **Example Directors' Report, Auditor's Report and Illustrative Financial Statements for Private Entities prepared in accordance with the Hong Kong Financial Reporting Standard for Private Entities (with Hong Kong Companies Ordinance disclosures)**

### **Preface**

- P1 This document consists of three parts: (i) example directors' report, (ii) example auditor's report on financial statements prepared in accordance with the HKFRS for Private Entities and (iii) illustrative financial statements for Private Entities prepared in accordance with the HKFRS for Private Entities, with Hong Kong Companies Ordinance disclosures.

### **Example Auditor's Reports on Financial Statements Prepared in accordance with the HKFRS for Private Entities**

- P2 The example auditor's reports on financial statements prepared in accordance with the HKFRS for Private Entities are prepared by the Hong Kong Institute of Certified Public Accountants (the Institute), as a source of reference by practicing members.
- P3 Auditors may require to tailor their auditor's report to cater for entity-specific facts and circumstances and hence the example reports should not be regarded as templates appropriate for all entities. Members are advised to refer to the relevant Hong Kong Standards on Auditing for guidance.

### **Example Directors' Report and Illustrative Financial Statements for Private Entities prepared in accordance with the HKFRS for Private Entities (with Hong Kong Companies Ordinance disclosures)**

- P4 These example directors' report and illustrative financial statements are not part of the HKFRS for Private Entities but are issued by the Institute as a source of reference for preparers that adopt the standard.
- P5 Section 3 "Financial Statement Presentation" of the HKFRS for Private Entities defines a complete set of financial statements and prescribes the general standard of financial statement presentation. Sections 4-8 prescribe the format and content of the individual financial statements and notes. Other sections of the HKFRS for Private Entities establish additional presentation and disclosure requirements. These financial statements illustrate how those presentation and disclosure requirements might be met by a typical Private Entity. An entity however, will need to consider the content, sequencing and format of presentation and the descriptions used for line items to achieve a fair presentation for that entity's particular circumstances, when preparing its financial statements. These example directors' report and illustrative financial statements should not be regarded as a template appropriate for all entities.
- P6 These illustrative financial statements are mainly based on the illustrative financial statements accompanying the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs), published by the International Accounting Standards Board (IASB) on 9 July 2009, and modified by including disclosures required for the first-time adoption of the HKFRS for Private Entities and disclosures required by the Hong Kong Companies Ordinance applicable for a Private Entity. They are not intended to illustrate all aspects of the HKFRS for Private Entities and the Hong Kong Companies Ordinance or necessarily the only way that the information may be presented. Depending on an entity's specific facts and circumstances, there may be additional disclosures that need to be made under the requirements of the HKFRS for Private Entities or the Hong Kong Companies Ordinance. Preparers are advised to refer to the relevant literature for further guidance.

**XYZ (Holdings) Limited**  
**Year ended 31 December 20X2**

**Directors' report**

The Directors present their annual report and the audited financial statements for the year ended 31 December 20X2.

**Principal activities**

XYZ (Holdings) Limited (the Company) is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at [ ]. The principal activities of the Company are the manufacture and sale of [ ]. The activities of its subsidiary are set out in note 16 to the financial statements.

**Results and appropriations**

The [profit][loss] of the Company and its subsidiary (the Group) for the year ended 31 December 20X2 and the state of the Company's and the Group's affairs as at that date are set out in the Company's financial statements on pages 3 to 30.

An interim dividend of HK\$5 per ordinary share (20X1: HK\$3.3 per ordinary share) was paid during the year ended 31 December 20X2. The directors recommend the payment of a final dividend of HK\$1 per ordinary share (20X1: nil) in respect of the year ended 31 December 20X2.

**Fixed assets**

Details of the movements during the year in the property, plant and equipment and the investment property of the Group and of the Company are set out in notes 18 and 19 to the financial statements respectively.

**Share capital and reserves**

Details of share capital of the Company are set out in note 28 to the Company's financial statements. There were no movements during the year.

There were no movements in reserves except for changes to retained earnings which arose from profit or loss and payment of dividends.

**Directors**

The directors of the Company during the year and up to the date of this report were:

Kwok Keung Lee  
Steve Wong  
Wing Yi Mok  
Yat Chit Wong

There being no provision in the Company's articles of association in connection with the retirement of directors by rotation, all existing directors continue in office for the following year.

The Company did not enter into any contract, other than the contracts of service with the directors or any person engaged in the full-time employment of the Company, whereby any individual, firm or body corporate undertakes the management and administration of the whole, or any substantial part of any business of the Company.

**Arrangements to purchase shares or debentures**

At no time during the year was the Company, its holding company, or its subsidiary a party to any arrangements 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.

**Directors' interests in contracts of significance**

No contract of significance to which the Company, its holding company, or its subsidiary was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**Charitable donations**

During the year, the Group and the Company made charitable donations amounting to HK\$5,000 (20X1: HK\$5,000).

**Events after the reporting date**

Details of significant events occurring after the reporting date are set out in note 31 to the consolidated financial statements.

**Auditor**

A resolution will be submitted to the annual general meeting to re-appoint [Name of audit firm] as auditor of the Company.

On behalf of the Board

(signed)  
Chairman  
[Date]

**Example 1**

**Example Unmodified Auditor's Report on Financial Statements prepared in accordance with the HKFRS for Private Entities based on HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" – effective for auditor's reports dated on or after 31 December 2006 but prior to the audits of financial statements for periods beginning on or after 15 December 2009**

**Circumstances include the following:**

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by directors of the entity in accordance with the HKFRS for Private Entities.**
- **The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.<sup>1</sup>**

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)<sup>2</sup>

We have audited the financial statements of ABC Limited ("the Company") set out on pages ..... to ....., which comprise the [balance sheet][statement of financial position]<sup>3</sup> as at 31 December 200X, and the [[income statement][statement of comprehensive income]<sup>3</sup>, statement of changes in equity][statement of income and retained earnings]<sup>4</sup> and [cash flow statement][statement of cash flows]<sup>3</sup> for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Directors' Responsibility for the Financial Statements*

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with the Hong Kong Financial Reporting Standard for Private Entities issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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<sup>1</sup> HKSA 210 "Terms of Audit Engagements".

<sup>2</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>3</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>4</sup> According to paragraph 3.18 of the HKFRS for Private Entities, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit<sup>5</sup>. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 200X and of its [profit][loss] and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standard for Private Entities and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

AAA & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's address]

[Date of auditor's report]

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<sup>5</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".



**Example 2**

**Example Unmodified Auditor's Report on Financial Statements prepared in accordance with the HKFRS for Private Entities based on HKSA 700 (Clarified) "Forming an Opinion and Reporting on Financial Statements" – effective for audits of financial statements for periods beginning on or after 15 December 2009**

**Circumstances include the following:**

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by directors of the entity in accordance with the HKFRS for Private Entities.**
- **The terms of the audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210 (Clarified)<sup>1</sup>.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.**

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)<sup>2</sup>

**[Report on the Financial Statements]<sup>3</sup>**

We have audited the financial statements of ABC Limited ("the Company") set out on pages ..... to ....., which comprise the [balance sheet][statement of financial position]<sup>4</sup> as at 31 December 20X1, and the [income statement][statement of comprehensive income]<sup>4</sup>, statement of changes in equity][statement of income and retained earnings]<sup>5</sup> and [cash flow statement][statement of cash flows]<sup>4</sup> for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors'<sup>6</sup> Responsibility for the Financial Statements*

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Hong Kong Financial Reporting Standard for Private Entities issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

<sup>1</sup> HKSA 210 (Clarified) "Agreeing the Terms of Audit Engagements".

<sup>2</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>3</sup> The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>4</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>5</sup> According to paragraph 3.18 of the HKFRS for Private Entities, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

<sup>6</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit<sup>7</sup>. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control.<sup>8</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 20X1, and of its [profit][loss] and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standard for Private Entities and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**[Report on Other Legal and Regulatory Requirements**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]]<sup>3</sup>

AAA & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's address]

[Date of the auditor's report]

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<sup>7</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

<sup>8</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

**Example 3**

**Example Unmodified Auditor's Report on Consolidated Financial Statements prepared in accordance with the HKFRS for Private Entities based on HKSA 700 "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" – effective for auditor's reports dated on or after 31 December 2006 but prior to the audits of consolidated financial statements for periods beginning on or after 15 December 2009**

**Circumstances include the following:**

- **Audit of consolidated financial statements prepared for a general purpose by directors of the parent in accordance with the HKFRS for Private Entities.**
- **The terms of the group audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210.<sup>1</sup>**

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)<sup>2</sup>

We have audited the consolidated financial statements of ABC Limited ("the Company") set out on pages ..... to....., which comprise the consolidated and company [balance sheets][statements of financial position]<sup>3</sup> as at 31 December 200X, and the consolidated [income statement][statement of comprehensive income]<sup>3</sup>, the consolidated statement of changes in equity][statement of income and retained earnings]<sup>4</sup> and the consolidated [cash flow statement][statement of cash flows]<sup>3</sup> for the year then ended, and a summary of significant accounting policies and other explanatory notes.

*Directors' Responsibility for the Financial Statements*

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with the Hong Kong Financial Reporting Standard for Private Entities issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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<sup>1</sup> HKSA 210 "Terms of Audit Engagements".

<sup>2</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>3</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>4</sup> According to paragraph 3.18 of the HKFRS for Private Entities, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit<sup>5</sup>. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the group as at 31 December 200X and of the group's [profit][loss] and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standard for Private Entities and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

AAA & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's address]

[Date of auditor's report]

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<sup>5</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditors' Duty of Care To Third Parties and The Audit Report".

**Example 4**

**Example Unmodified Auditor's Report on Consolidated Financial Statements prepared in accordance with the HKFRS for Private Entities based on HKSA 700 (Clarified) "Forming an Opinion and Reporting on Financial Statements" – effective for audits of consolidated financial statements for periods beginning on or after 15 December 2009**

**Circumstances include the following:**

- **Audit of consolidated financial statements prepared for a general purpose by directors of the parent in accordance with the HKFRS for Private Entities.**
- **The terms of the group audit engagement reflect the description of directors' responsibility for the financial statements in HKSA 210 (Clarified)<sup>1</sup>.**
- **In addition to the audit of the group financial statements, the auditor has other reporting responsibilities required under local law in addition to the Hong Kong Companies Ordinance.**

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ABC LIMITED

(incorporated in Hong Kong with limited liability)<sup>2</sup>

**[Report on the Consolidated Financial Statements]<sup>3</sup>**

We have audited the consolidated financial statements of ABC Limited ("the Company") and its subsidiaries (together "the Group") set out on pages ..... to ....., which comprise the consolidated and company [balance sheets][statements of financial position]<sup>4</sup> as at 31 December 20X1, and the consolidated [[income statement][statement of comprehensive income]<sup>4</sup>, the consolidated statement of changes in equity][statement of income and retained earnings]<sup>5</sup> and the consolidated [cash flow statement][statement of cash flows]<sup>4</sup> for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors'<sup>6</sup> Responsibility for the Consolidated Financial Statements*

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the Hong Kong Financial Reporting Standard for Private Entities issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

<sup>1</sup> HKSA 210 (Clarified) "Agreeing the Terms of Audit Engagements".

<sup>2</sup> In Hong Kong, it is a common practice to disclose the place of incorporation of the company.

<sup>3</sup> The sub-title "Report on the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>4</sup> Delete as appropriate, different terms may be used as long as they are consistent with the titles of the corresponding statements.

<sup>5</sup> According to paragraph 3.18 of the HKFRS for Private Entities, the entity may present a single statement of income and retained earnings in place of the statement of comprehensive income and statement of changes in equity.

<sup>6</sup> Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit<sup>7</sup>. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control.<sup>8</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 20X1, and of the Group's [profit][loss] and cash flows for the year then ended in accordance with the Hong Kong Financial Reporting Standard for Private Entities and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**[Report on Other Legal and Regulatory Requirements]**

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]]<sup>3</sup>

AAA & Co.

Certified Public Accountants (Practising) [or Certified Public Accountants]

[Auditor's address]

[Date of the auditor's report]

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<sup>7</sup> Auditors may consider it appropriate to clarify to whom they are responsible here or elsewhere in the report in accordance with their risk management policies and with reference to Professional Risk Management Bulletin No. 2 "Auditor's Duty of Care To Third Parties and The Audit Report".

<sup>8</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

**XYZ (Holdings) Limited**

S125(1)

**Consolidated statement of income and retained earnings for the year ended 31 December 20X2**

(Alternative 1 – illustrating the classification of expenses by function)

	Notes	20X2 HK\$	20X1 HK\$
Revenue	6	6,863,545	5,808,653
Cost of sales		<u>(5,346,537)</u>	<u>(4,591,375)</u>
Gross profit		1,517,008	1,217,278
Other income	7	388,850	225,000
Distribution costs		(175,550)	(156,800)
Administrative expenses		(824,210)	(659,823)
Other expenses		(106,763)	(100,030)
Finance costs	8	<u>(26,366)</u>	<u>(36,712)</u>
Profit before tax	9	772,969	488,913
Income tax expense	10	<u>(100,290)</u>	<u>(71,875)</u>
Profit for the year		672,679	417,038
Retained earnings at start of year		6,303,540	5,986,502
Dividends	29	<u>(150,000)</u>	<u>(100,000)</u>
Retained earnings at end of year		<u>6,826,219</u>	<u>6,303,540</u>

10SCH(13(1)(j)) The notes on pages 11 to 30 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 29.

Note: The format illustrated above aggregates expenses according to their function (cost of sales, distribution, administrative etc). As the only changes to XYZ Group's equity during the year arose from profit or loss and payment of dividends, it has elected to present a single statement of income and retained earnings instead of separate statements of comprehensive income and changes in equity.

**XYZ (Holdings) Limited**

S125(1)

**Consolidated statement of income and retained earnings for the year ended 31 December 20X2**

**(Alternative 2 – illustrating the classification of expenses by nature)**

	Notes	20X2 HK\$	20X1 HK\$
Revenue	6	6,863,545	5,808,653
Other income	7	388,850	225,000
Changes in inventories of finished goods and work in progress		3,310	(1,360)
Raw materials and consumables used		(4,785,906)	(4,086,839)
Employee salaries and benefits		(936,142)	(879,900)
Depreciation and amortisation expense		(454,840)	(394,827)
Impairment of property, plant and equipment		(30,000)	—
Other expenses		(249,482)	(145,102)
Finance costs	8	<u>(26,366)</u>	<u>(36,712)</u>
Profit before tax	9	772,969	488,913
Income tax expense	10	<u>(100,290)</u>	<u>(71,875)</u>
Profit for the year		672,679	417,038
Retained earnings at start of year		6,303,540	5,986,502
Dividends	29	<u>(150,000)</u>	<u>(100,000)</u>
Retained earnings at end of year		<u><u>6,826,219</u></u>	<u><u>6,303,540</u></u>

10SCH(13(1)(j)) The notes on pages 11 to 30 form part of these financial statements. Details of dividends payable to equity shareholders of the company attributable to the profit for the year are set out in note 29.

Note: The format illustrated above aggregates expenses according to their nature (raw materials and consumables, employee salaries and benefits, depreciation and amortisation, impairment etc). As the only changes to XYZ Group's equity during the year arose from profit or loss and payment of dividends, it has elected to present a single statement of income and retained earnings instead of separate statements of comprehensive income and changes in equity.



**XYZ (Holdings) Limited**

S125(1)

**Consolidated statement of financial position at 31 December 20X2**

	Notes	20X2 HK\$	20X1 HK\$
<b>ASSETS</b>			
<b>Current assets</b>			
10SCH(4(2))			
Cash and cash equivalents	12	329,444	247,548
Amounts due from directors	13	1,500	1,500
Trade and other receivables	14	585,548	452,862
Inventories	15	57,381	47,920
		<u>973,873</u>	<u>749,830</u>
<b>Non-current assets</b>			
10SCH(4(2))			
Investment in an associate	17	107,500	107,500
Property, plant and equipment	18	4,681,945	4,711,455
Investment property	19	1,800,000	1,600,000
10SCH(9(1)(b))	20	19,443	25,923
		<u>6,608,888</u>	<u>6,444,878</u>
Total assets		<u>7,582,761</u>	<u>7,194,708</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Borrowings	21	83,600	115,507
Trade payables	22	431,480	420,520
Interest payable		2,000	1,200
Current tax liability		107,595	100,116
10SCH(6)	23	4,200	5,040
Current portion of obligations under finance leases	25	21,461	19,884
		<u>650,336</u>	<u>662,267</u>

**XYZ (Holdings) Limited**

**Consolidated statement of financial position at 31 December 20X2  
 (continued)**

	Notes	20X2 HK\$	20X1 HK\$
<b>Non-current liabilities</b>			
	21	50,000	150,000
	25	23,163	44,624
<i>10SCH(8)</i>	26	<u>3,043</u>	<u>4,277</u>
		<u>76,206</u>	<u>198,901</u>
Total liabilities		<u>726,542</u>	<u>861,168</u>
<b>Equity</b>			
	28	30,000	30,000
<i>10SCH(6)</i>	5		
- Proposed final dividend	29	30,000	—
- Others		<u>6,796,219</u>	<u>6,303,540</u>
		<u>6,856,219</u>	<u>6,333,540</u>
Total liabilities and equity		<u>7,582,761</u>	<u>7,194,708</u>

*S129B(1)* The financial statements on pages 3 to 30 were approved and authorised for issue by the Board of Directors on [Date] and are signed on its behalf by:

\_\_\_\_\_  
 (Name, Director)

\_\_\_\_\_  
 (Name, Director)

The notes on pages 11 to 30 form part of these financial statements.

*10SCH(9(1)(e))* According to S129B(1), every balance sheet of a company shall be approved by the board of directors of the company and signed on behalf of the board by 2 of the directors or, in the case of a private company having only one director, by the sole director.

## XYZ (Holdings) Limited

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### Statement of financial position at 31 December 20X2

	Notes	20X2 HK\$	20X1 HK\$	
<b>ASSETS</b>				
<i>10SCH(4(2))</i>	<b>Current assets</b>			
	Cash and cash equivalents	12	319,444	237,548
	Amounts due from directors	13	1,500	1,500
	Trade and other receivables	14	585,548	452,862
	Inventories	15	57,381	47,920
			<u>963,873</u>	<u>739,830</u>
<i>10SCH(4(2))</i>	<b>Non-current assets</b>			
	Investment in a subsidiary	16	10,000	10,000
	Investment in an associate	17	107,500	107,500
	Property, plant and equipment	18	4,681,945	4,711,455
	Investment property	19	1,800,000	1,600,000
<i>10SCH(9(1)(b))</i>	Intangible assets	20	19,443	25,923
			<u>6,618,888</u>	<u>6,454,878</u>
	Total assets		<u>7,582,761</u>	<u>7,194,708</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Current liabilities</b>				
	Borrowings	21	83,600	115,507
	Trade payables	22	431,480	420,520
	Interest payable		2,000	1,200
	Current tax liability		107,595	100,116
	Provision for warranty obligations	23	4,200	5,040
<i>10SCH(6)</i>	Current portion of obligations under finance leases	25	21,461	19,884
			<u>650,336</u>	<u>662,267</u>

**XYZ (Holdings) Limited**

**Statement of financial position at 31 December 20X2 (continued)**

	Notes	20X2 HK\$	20X1 HK\$
<b>Non-current liabilities</b>			
Borrowings	21	50,000	150,000
Obligations under finance leases	25	23,163	44,624
<i>10SCH(8)</i> Deferred tax liability	26	<u>3,043</u>	<u>4,277</u>
		<u>76,206</u>	<u>198,901</u>
Total liabilities		<u>726,542</u>	<u>861,168</u>
<b>Equity</b>			
Share capital	28	30,000	30,000
<i>10SCH(6)</i> Retained earnings	5		
- Proposed final dividend	29	30,000	—
- Others		<u>6,796,219</u>	<u>6,303,540</u>
		<u>6,856,219</u>	<u>6,333,540</u>
Total liabilities and equity		<u>7,582,761</u>	<u>7,194,708</u>

*S129B(1)* The financial statements on pages 3 to 30 were approved and authorised for issue by the Board of Directors on [Date] and are signed on its behalf by:

\_\_\_\_\_  
 (Name, Director)

\_\_\_\_\_  
 (Name, Director)

The notes on pages 11 to 30 form part of these financial statements.

*10SCH(9(1)(e))* According to S129B(1), every balance sheet of a company shall be approved by the board of directors of the company and signed on behalf of the board by 2 of the directors or, in the case of a private company having only one director, by the sole director.

**XYZ (Holdings) Limited**

**Consolidated statement of cash flows for the year ended 31 December 20X2**

	Notes	20X2	20X1
		HK\$	HK\$
<b>Operating activities</b>			
Profit before tax		772,969	483,567
Adjustments for:			
- Fair value gain on the investment property	7	(200,000)	(100,000)
- Depreciation of property, plant and equipment	9	448,360	388,347
- Impairment loss on property, plant and equipment	9	30,000	—
- Finance costs	8	26,366	36,712
- Gain on disposal of property, plant and equipment	7	(63,850)	—
- Amortisation of intangibles	9	6,480	6,480
- Dividend from the associate	7	(25,000)	(25,000)
<b>Operating profit before changes in working capital</b>		995,325	790,106
Increase in inventories		(9,461)	(2,870)
Increase in trade and other receivables		(132,686)	(14,628)
Increase in trade payables		10,960	11,370
Decrease in provision for warranty obligations		(840)	(500)
<b>Cash generated from operations</b>		863,298	783,478
Tax paid			
Hong Kong profits tax paid		(94,045)	(85,545)
<b>Net cash generated from operating activities</b>		769,253	697,933

**XYZ (Holdings) Limited**  
**Consolidated statement of cash flows for the year ended 31 December 20X2**  
**(Continued)**

	Notes	20X2		20X1	
		HK\$	HK\$	HK\$	HK\$
<b>Investing activities</b>					
Payment for the purchase of equipment		(485,000)		(435,000)	
Proceeds from sale of equipment		100,000		—	
Dividend from the associate		25,000		25,000	
<b>Net cash used in investing activities</b>			(360,000)		(410,000)
<b>Financing activities</b>					
Payment of finance lease liabilities		(19,884)		(18,423)	
Repayment of bank loan		(100,000)		—	
Interest element of finance lease rentals paid	8	(5,116)		(6,577)	
Other borrowing costs paid		(20,450)		(28,935)	
Dividends paid to equity shareholders of the company	29	(150,000)		(100,000)	
<b>Net cash used in financing activities</b>			(295,450)		(153,935)
<b>Net increase in cash, cash equivalents and bank overdraft</b>			113,803		133,998
<b>Cash, cash equivalents and bank overdraft at 1 January</b>	12		132,041		(1,957)
<b>Cash, cash equivalents and bank overdraft at 31 December</b>	12		245,844		132,041

The notes on pages 11 to 30 form part of these financial statements.

## XYZ (Holdings) Limited

### Accounting policies and explanatory notes to the consolidated financial statements for the year ended 31 December 20X2

#### 1. General information

XYZ (Holdings) Limited (the Company) is a limited company incorporated in Hong Kong. The address of its registered office and principal place of business is \_\_\_\_\_. The Group consists of the Company and its wholly-owned subsidiary XYZ (Trading) Limited (note 16). The Group's principal activities are the manufacture and sale of [ ].

#### 2. Basis of preparation and accounting policies

These consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities) issued by the Hong Kong Institute of Certified Public Accountants and the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, as modified by the revaluation of investment property at fair value.

##### *Basis of consolidation*

These consolidated financial statements incorporate the financial statements of the Company and its subsidiary. A subsidiary is an entity (including special purpose entity) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally but not necessarily accompanying a shareholding of more than half of the voting power. The subsidiary is fully consolidated from the date on which control is transferred to the Group and is de-consolidated from the date that control ceases.

All intragroup transactions, balances, income and expenses are eliminated. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group. There is no difference in the reporting date of the financial statements of the Company and its subsidiary used in the preparation of the consolidated financial statements.

In the Company's statement of financial position, the investment in a subsidiary is stated at cost less provision for impairment loss. The results of the subsidiary are accounted for by the Company on the basis of dividends received and receivable.

##### 10SCH(12(14)) *Foreign currency translation*

###### (a) Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in Hong Kong Dollars, which is the Company's functional and the Group's presentation currency.

###### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in profit or loss within "finance costs". All other foreign exchange gains and losses are presented in profit or loss within "other income" or "other expenses".

## 2. Basis of preparation and accounting policies (continued)

### *Cash and cash equivalents*

Cash and cash equivalents includes cash on hand, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Bank overdraft is shown within borrowings in current liabilities on the statement of financial position.

### *Trade receivables*

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables.

10SCH(12(13))

### *Inventories*

Inventories are stated at the lower of cost and selling price less costs to complete and sell. Cost is calculated using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises packaging costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). At each reporting date, inventories are assessed for impairment and the carrying amount is reduced to its selling price less costs to complete and sell with the impairment loss recognised immediately in profit or loss.

### *Investment in an associate*

An associate is an entity, including an unincorporated entity such as a partnership, over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. The Group has elected to account for its investment in an associate at cost less any accumulated impairment losses and there is no published price quotation available for the Group's associate.

Dividend income from the investment in an associate is recognised when the Group's right to receive payment has been established and is included in "other income".

10SCH(4(3))

### *Property, plant and equipment*

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Where the Group acquires leasehold land for own use under a finance lease, the prepaid cost included in property, plant and equipment on initial recognition represents the fair value of the leasehold land, or if lower, the present value of the minimum lease payments, determined at the inception of the lease and any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease).

The other cost of such items of property, plant and equipment comprises the following:

- the purchase price, including legal and brokerage fees, import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for them to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.



## 2. Basis of preparation and accounting policies (continued)

### *Property, plant and equipment (continued)*

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. Assets held under finance leases, for which there is no reasonable certainty that the Group will obtain ownership at the end of the lease term, are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the terms of the relevant lease. The following annual rates are used for the depreciation of property, plant and equipment:

- |   |                      |
|---|----------------------|
| • Leasehold land held for own use under a finance lease | Over the leased term |
| • Buildings held for own use                            | 5 percent            |
| • Fixtures and equipment                                | 10-30 percent        |

If there is an indication that there has been a significant change in the depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

### *Investment property*

Investment property is a property held by the Group as an owner, or as a lessee under a finance lease, to earn rental or for capital appreciation or both, rather than for (i) use in the production or supply of goods or services or for administrative purposes, or (ii) sale in the ordinary course of business. It also includes a property interest held by a lessee under an operating lease which otherwise meets the definition of an investment property and can be measured at fair value without undue cost and effort on an ongoing basis.

On initial recognition, the cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The initial cost of a property interest held under a lease and classified as an investment property is measured at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, determined at the inception of the lease and any initial direct costs of the lessee (incremental costs that are directly attributable to negotiating and arranging a lease).

Subsequent to initial recognition, investment property is carried at fair value, derived from the current market prices for comparable real estate determined annually by independent firm of surveyors. Changes in fair value are recognised in profit or loss.

### *Intangible assets*

Intangible assets are purchased computer software that is stated at cost less accumulated amortisation and any accumulated impairment losses. It is amortised over its estimated life of five years using the straight-line method. If there is an indication that there has been a significant change in the amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

### *Borrowings*

Borrowings are recognised initially at the transaction price and are subsequently stated at amortised cost. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

### *Trade payables*

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

## 2. Basis of preparation and accounting policies (continued)

### *Taxation*

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of income and retained earnings because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases using in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. However, the measurement of deferred tax liabilities associated with an investment property measured at fair value does not exceed the amount of tax that would be payable on its sale to an unrelated market participant at fair value at the reporting date. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### *Provision for warranty obligations*

All goods sold by the Group are warranted to be free of manufacturing defects for a period of one year. Goods are repaired or replaced at the Group's option. When revenue is recognised, a provision is made for the estimated cost of the warranty obligation.

### *Employee benefit obligations*

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

### *Leases*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Group. All other leases are classified as operating leases.

## 2. Basis of preparation and accounting policies (continued)

### *Leases (continued)*

Rights to assets held under finance leases are recognised as assets of the Group at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property, plant and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

### *Impairment of non-financial assets, other than inventories*

At each reporting date, property, plant and equipment, intangible assets, and investments in a subsidiary and an associate are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If an estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

10SCH(16(4))

### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and is shown net of discounts, rebates, returns, sales-related taxes and after eliminating sales within the Group.

Revenue is recognised in profit or loss provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, as follows:

(a) Revenue from the sales of goods

Revenue from the sales of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Royalty revenue

Revenue from the licensing of patents for use by others is recognised on an accrual basis in accordance with the substance of the relevant agreement, which is on a straight-line basis over the license period.

(c) Rental income

Rental income from investment property that is leased to third party under operating leases is recognised on a straight-line basis over the lease term and is included in "other income".

## 2. Basis of preparation and accounting policies (continued)

### *Revenue recognition (continued)*

(d) Dividend income

Dividend income from the associate is recognised when the Group's right to receive payment has been established and is included in "other income".

### *Borrowing costs*

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

### *Research and development costs*

All research and development costs are recognised as an expense unless they form part of the cost of another asset that meets the recognition criteria.

### *Dividend distribution*

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

### *Related parties*

For the purpose of these financial statements, related party includes a person and entity as defined below:

- (a) A person or a close member of that person's family is related to the Group and the Company if that person:
- (i) is a member of the key management personnel of the Group and the Company or of a parent of the Group and the Company;
  - (ii) has control over the Group and the Company; or
  - (iii) has joint control or significant influence over the reporting entity or has significant voting power in it.
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
- (i) the entity and the Group and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) either entity is an associate or joint venture of the other entity (or of a member of a group of which the other entity is a member).
  - (iii) both entities are joint ventures of a third entity.
  - (iv) either entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group and the Company or an entity related to the Group and the Company. If the reporting entity is itself such a plan, the sponsoring employers are also related to the plan.
  - (vi) the entity is controlled or jointly controlled by a person identified in (a).
  - (vii) a person identified in (a)(i) has significant voting power in the entity.

### 3. Transition to the HKFRS for Private Entities

#### (a) Application of the HKFRS for Private Entities

The Group's consolidated financial statements for the year ended 31 December 20X2 are its first annual financial statements prepared under accounting policies that comply with the HKFRS for Private Entities. The Company applied full Hong Kong Financial Reporting Standards (HKFRSs) to prepare its consolidated financial statements prior to the application of the HKFRS for Private Entities.

The Company's date of transition is 1 January 20X1 and the Group prepared its opening consolidated statement of financial position in compliance with the HKFRS for Private Entities at that date.

The Group has applied all the mandatory exceptions and certain of the optional exemptions from full retrospective application of the HKFRS for Private Entities when preparing these consolidated financial statements in accordance with the HKFRS for Private Entities.

#### (b) Exemptions from full retrospective application

The Company has elected to apply the following optional exemption from full retrospective application:

##### *Revaluation of property, plant and equipment as deemed cost*

On transition to the HKFRS to Private Entities the Group elected to apply the optional exemption to use the previous revaluation of property, plant and equipment as deemed cost under the HKFRS for Private Entities. The revaluation reserve of HK\$100,000 at 1 January 20X1 and 31 December 20X1 was reclassified to retained earnings. Except for the reclassification this had no impact on the financial statements.

#### (c) Reconciliation

The following reconciliations show the effect on the Group's and the Company's equity of the transition from using the full HKFRSs to the HKFRS for Private Entities at 1 January 20X1 and 31 December 20X1 and the Group's profit for the year ended 31 December 20X1.

	The Group		The Company	
	31 December 20X1 HK\$	1 January 20X1 HK\$	31 December 20X1 HK\$	1 January 20X1 HK\$
Total equity under full HKFRSs	6,138,133	5,817,337	6,133,540	5,816,502
Restatement of investment in an associate to cost, net of tax (note (i))	(4,593)	(835)	—	—
Fair value adjustment to investment property (note (ii))	200,000	100,000	200,000	100,000
Total equity under the HKFRS for Private Entities	<u>6,333,540</u>	<u>5,916,502</u>	<u>6,333,540</u>	<u>5,916,502</u>

### 3. Transition to the HKFRS for Private Entities (continued)

	<b>The Group 20X1 HK\$</b>
Results for the year under full HKFRSs	320,796
Restatement of investment in associate to cost, net of tax (note (i))	(3,758)
Fair value adjustment to investment property (note (ii))	100,000
Results for the year under the HKFRS for Private Entities	417,038

*Note: Explanation of transition to the HKFRS for Private Entities*

- (i) Investment in the associate accounted for at cost

Consistent with the Group's accounting policy, the investment in the associate has been recognised at cost at the date of transition. Under the full HKFRSs the investment in the associate was measured using the equity method of accounting.

- (ii) Fair value adjustment to the investment property

Consistent with the Group's accounting policy, the investment property has been recognised, subsequent to initial recognition, at fair value at the date of transition. Under the full HKFRSs the investment property was measured at cost less accumulated depreciation and any accumulated impairment losses. This adjustment reflects the uplift of the Group's investment property to fair value.

- (iii) Classification of leases of land and buildings

Consistent with the Group's accounting policy, land held under a lease which transfers to the Group substantially all the risks and rewards of ownership has been classified as being held under a finance lease at the date of transition. Under the full HKFRSs, prior to the adoption of HKFRSs (Amendments) "Improvements to HKFRSs 2009" - Hong Kong Accounting Standard 17 "Leases" - Classification of lease of land and buildings which is effective for annual periods on or after 1 January 2010, land held under a lease is classified as an operating lease unless title to the land is expected to pass at the end of the lease term.

The Group has made a reassessment of the existing land lease arrangement and concluded that such arrangement has substantially transferred all risks and rewards incidental to ownership of the leased land to the Group notwithstanding that at the end of the lease term, title will not be passed to the Group. As a result, a prepaid land lease payments of the Group and the Company has been reclassified to property, plant and equipment and the amortisation of the prepaid land lease payments has been reclassified to depreciation retrospectively upon adoption of the HKFRS for Private Entities. Such reclassification had no effect on the total equity or results of the Group and the Company.

There is no material difference between the consolidated statement of cash flows prepared under the HKFRS for Private Entities and that under the full HKFRSs.

#### 4. Key sources of estimation uncertainty

##### *Fair value of investment property*

The fair value of investment property is derived from the current market prices of comparable real estate (note 2). The fair value is based on a valuation made by an independent firm of surveyors, [Name of firm], which has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuer uses observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset.

#### 5. Restriction on payment of dividends

Under the terms of the bank loan and bank overdraft agreements, dividends cannot be paid to the extent that they would reduce the balance of retained earnings below the sum of the outstanding balance of the bank loan and the bank overdraft.

#### 6. Revenue

10SCH(16(2)  
&(4))

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; and royalties received and receivable from licences during the year.

	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Sale of goods	6,743,545	5,688,653
Royalties – licensing of patents	<u>120,000</u>	<u>120,000</u>
	<u>6,863,545</u>	<u>5,808,653</u>

#### 7. Other income

10SCH(13(1)(g))

	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Dividend received from the unlisted associate (note 17)	25,000	25,000
Gain on disposal of property, plant and equipment	63,850	—
Gross rental from the investment property	100,000	100,000
Fair value gain on the investment property (note 19)	<u>200,000</u>	<u>100,000</u>
	<u>388,850</u>	<u>225,000</u>

#### 8. Finance costs

10SCH(13(1)(b))

	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Interest on bank loan and overdraft wholly repayable within five years	21,250	30,135
Interest on finance leases	<u>5,116</u>	<u>6,577</u>
	<u>26,366</u>	<u>36,712</u>

## 9. Profit before tax

The following items have been recognised as expenses / (income) in determining profit before tax:

	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Amortisation of intangibles	6,480	6,480
<i>10SCH(15)</i> Auditor's remuneration	10,000	10,000
Cost of inventories recognised as an expense	5,346,537	4,591,375
<i>10SCH(13(1)(a))</i> Depreciation of property, plant and equipment	448,360	388,347
Foreign exchange loss	1,000	—
Impairment loss on property, plant and equipment	30,000	—
<i>10SCH(13(1)(i))</i> Operating lease charges on property rental	26,100	26,100
Research and development costs (included in other expenses)	31,620	—
<i>10SCH(13(1)(h))</i> Rentals receivable from investment property less direct outgoings of HK\$25,000 (20X1: HK\$23,000)	(75,000)	(77,000)
Staff costs	936,142	879,900
Comprising:		
- Contributions to defined contribution retirement plan	46,407	43,995
- Salaries, wages and other benefits	889,735	835,905
Warranty expenses (included in cost of sales*)	5,260	7,340

\* If the entity classifies its expenses by nature in its income statement, this would say 'included in raw materials and consumables used'.

## 10. Income tax expense

Taxation in the consolidated statement of income and retained earnings represents:

	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
<b>Current tax – Hong Kong Profits Tax</b>		
<i>10SCH(13(1)(c))</i> Provision for the year	101,519	67,593
<i>10SCH(17(4))</i> Under-provision in respect of prior years	<u>5</u>	<u>5</u>
	101,524	67,598
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>(1,234)</u>	<u>4,277</u>
	<u>100,290</u>	<u>71,875</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (20X1: 16.5%) of the estimated assessable profit for the year.

*10SCH(12(15) & 17(3))* Income tax expense for the year of HK\$100,290 (20X1: HK\$71,875) differs from the amount that would result from applying the tax rate of 16.5% (both 20X2 and 20X1) to profit before tax mainly because the Group has not recognised deferred taxation on the revaluation of its investment property as the Group considers the revaluation difference is not taxable under the Hong Kong tax laws and certain employee compensation expenses (20X2: HK\$20,670 and 20X1: HK\$16,750) that are recognised in measuring profit before tax are not tax-deductible under Hong Kong tax laws.



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## 11. Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows

	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Fees	124,518	98,880
Other emoluments	29,400	13,380
	<u>153,918</u>	<u>112,260</u>

## 12. Cash and cash equivalents

	<u>The Group</u>		<u>The Company</u>	
	<b>20X2</b>	<b>20X1</b>	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
Cash at bank and on hand	<u>329,444</u>	<u>247,548</u>	<u>319,444</u>	<u>237,548</u>

Cash, cash equivalents and bank overdraft include the following for the purpose of the consolidated statement of cash flows:

	<u>The Group</u>	
	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Cash and cash equivalents	329,444	247,548
Bank overdraft (note 21)	<u>(83,600)</u>	<u>(115,507)</u>
	<u>245,844</u>	<u>132,041</u>

## 13. Amounts due from directors

S161B(1)[2003]

Directors' current accounts/loans to officers disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

		<u>The Group and the Company</u>		
<u>Director</u>	<u>Terms of loan</u>	<u>Balance at end of year</u>	<u>Balance at beginning of year</u>	<u>Maximum amount outstanding during the year</u>
		<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
Kwok Keung Lee	Secured on property, repayable within one year, interest-free (Note)	1,000	1,000	1,000
Steve Wong	Unsecured, repayable within one year, interest-free	500	500	500
		<u>1,500</u>	<u>1,500</u>	

Note: The loan is secured over a property owned by Kwok Keung Lee. The Group is not permitted to sell or repledge the collateral in the absence of default by that director.

## 14. Trade and other receivables

	<u>The Group and the Company</u>	
	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Trade debtors	528,788	407,384
Prepayments	<u>56,760</u>	<u>45,478</u>
	<u>585,548</u>	<u>452,862</u>

## 15. Inventories

	<u>The Group and the Company</u>	
	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Raw materials	42,601	36,450
Work in progress	1,140	900
Finished goods	<u>13,640</u>	<u>10,570</u>
	<u>57,381</u>	<u>47,920</u>

## 16. Investment in a subsidiary

	<u>The Company</u>	
	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
<sup>10SCH(9(1)(a) &amp; 31(a))</sup> Unlisted shares, at cost	<u>10,000</u>	<u>10,000</u>

At 31 December 20X2, the Company had an interest in the following subsidiary:

<i>S128</i>	<b>Name of company</b>	<b>Place of incorporation and operation</b>	<b>Particulars of issued shares and paid up capital</b>	<b>Proportion of ownership interest</b>		<b>Principal activity</b>
				<b>Held by the Company</b>	<b>Held by a subsidiary</b>	
	XYZ (Trading) Limited	Hong Kong	10,000 shares of HK\$1 each	100%	—	Dormant

## 17. Investment in an associate

Details of the interest in an associate of the Group and the Company are as follows:

10SCH(9(1)(a)  
&31(a))

		<u>The Group and the Company</u>	
		20X2	20X1
		HK\$	HK\$
	Unlisted shares, at cost	<u>107,500</u>	<u>107,500</u>

During the year the Group and the Company have received a dividend of HK\$25,000 from the associate, which was paid out of the associate's current year's profit, and is included in other income in 20X2 (20X1: HK\$25,000).

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At 31 December 20X2 and 20X1, the Group and the Company had an interest in the following associate:

<b>Name of associate</b>	<b>Form of business structure</b>	<b>Place of incorporation and operation</b>	<b>Class of shares held</b>	<b>Proportion of ownership interest</b>		<b>Principal activity</b>
				<b>Held by the Company</b>	<b>Held by a subsidiary</b>	
XYZ Service Company Limited	Incorporated	Hong Kong	Ordinary	35%	—	Sale of [ ]

## 18. Property, plant and equipment

(a) The Group and the Company

	<b>Leasehold land held for own use under a finance lease</b>	<b>Buildings held for own use</b>	<b>Fixtures and equipment</b>	<b>Total</b>	
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>	
<b>Cost</b>					
<i>10SCH(12(8))</i>	1 January 20X2	5,500,000	1,960,000	1,102,045	8,562,045
<i>10SCH(12(8))</i>	Additions	—	—	485,000	485,000
<i>10SCH(5(3)(a))</i>	Disposals	—	—	(241,000)	(241,000)
	31 December 20X2	<u>5,500,000</u>	<u>1,960,000</u>	<u>1,346,045</u>	<u>8,806,045</u>
<b>Accumulated depreciation and impairment</b>					
	1 January 20X2	3,190,000	390,000	270,590	3,850,590
	Annual depreciation	110,000	98,000	240,360	448,360
	Impairment	—	—	30,000	30,000
<i>10SCH(5(3)(b))</i>	Less accumulated depreciation on assets disposed of	—	—	(204,850)	(204,850)
	31 December 20X2	<u>3,300,000</u>	<u>488,000</u>	<u>336,100</u>	<u>4,124,100</u>
<b>Carrying amount</b>					
	31 December 20X2	<u>2,200,000</u>	<u>1,472,000</u>	<u>1,009,945</u>	<u>4,681,945</u>

At 31 December 20X2 and 20X1, certain property, plant and equipment has been pledged as security for a bank overdraft and a bank loan (note 21).

During 20X2 the Group and the Company noticed a significant decline in the efficiency of a major piece of equipment and so carried out a review of its recoverable amount. The review led to the recognition of an impairment loss of HK\$30,000 (20X1: nil).

The carrying amount of the fixtures and equipment of the Group and the Company includes an amount of HK\$40,000 (20X1: HK\$60,000) in respect of assets held under finance leases.

On 10 December 20X2 the directors resolved to dispose of a machine. The machine's carrying amount of HK\$1,472 is included in fixtures and equipment at 31 December 20X2, and trade payables include the remaining obligation of the Group and the Company of HK\$1,550 on the acquisition of this machine. Because the proceeds on disposal are expected to exceed the net carrying amount of the asset and related liability, no impairment loss has been recognised.

## 18. Property, plant and equipment (continued)

- (b) The analysis of the net book value of leasehold land held for own use under finance lease is as follows:

10SCH  
(12(9)(a)  
&31(c))

		<u>The Group and the Company</u>	
		20X2	20X1
		HK\$	HK\$
In Hong Kong			
-	long leases	<u>2,200,000</u>	<u>2,310,000</u>

## 19. Investment property

- (a) The Group and the Company

	20X2
	HK\$
Opening carrying amount	1,600,000
Net gain from fair value adjustment (note 7)	<u>200,000</u>
Closing carrying amount	<u>1,800,000</u>

The fair value of the investment property is derived from the current market prices for comparable real estate determined annually by an independent firm of surveyors, [Name of firm], which has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. The valuer uses observable market prices, adjusted if necessary for any difference in the nature, location or condition of the specific asset.

- (b) The analysis of the carrying value of investment property is as follows:

		<u>The Group and the Company</u>	
		20X2	20X1
		HK\$	HK\$
In Hong Kong			
-	long leases	<u>1,800,000</u>	<u>1,600,000</u>

*10SCH(9(1)(b))* **20. Intangible assets**

	<u>The Group and the Company</u>	
	HK\$	
Software:		
<b>Cost</b>		
1 January 20X2		32,403
Additions		—
Disposals		—
31 December 20X2		<u>32,403</u>
<b>Accumulated amortisation and impairment</b>		
1 January 20X2		6,480
Annual amortisation (included in administrative expenses*)		6,480
31 December 20X2		<u>12,960</u>
<b>Carrying amount</b>		
31 December 20X2		<u><u>19,443</u></u>

\* If the entity classifies its expenses by nature in its income statement, this would say 'included in depreciation and amortisation expense'.

**21. Borrowings**

	<u>The Group and the Company</u>	
	20X2	20X1
	HK\$	HK\$
<b>Non-current</b>		
<i>10SCH(10)</i> Bank loan, secured – fully repayable in 20X4, prepayable without penalty	50,000	150,000
<b>Current</b>		
<i>10SCH(9(1)(d)) &amp; 10SCH(10)</i> Bank overdraft, secured (note 12)	<u>83,600</u>	<u>115,507</u>
	<u><u>133,600</u></u>	<u><u>265,507</u></u>

*10SCH(9(1)(d))* The entire balance of the bank loan of the Group and the Company as of 31 December 20X2 and 20X1 is fully repayable in 20X4 and prepayable without penalty. The Group and the Company had no bank loan repayable more than five years as of 31 December 20X2 and 20X1.

*10SCH(12(4))* The bank overdraft and bank loan are secured by a floating lien over land and buildings owned by the Group and the Company with a carrying amount of HK\$266,000 at 31 December 20X2 (31 December 20X1: HK\$412,000) (note 18). The Group and the Company had no unsecured bank overdrafts and loans as of 31 December 20X2 and 20X1.

Interest is payable on the secured bank overdraft at 200 points above the Hong Kong Interbank Borrowing Rate (HIBOR). Interest is payable on the four-year bank loan at a fixed rate of 5 percent of the principal amount.

## 22. Trade payables

Trade payables at 31 December 20X2 include HK\$42,600 denominated in foreign currencies (31 December 20X1: nil).

## 23. Provision for warranty obligations

Changes in the provision for warranty obligations during 20X2 were:

	<u>The Group and the Company</u>	
	<b>20X2</b>	
	<b>HK\$</b>	
1 January 20X2		5,040
Additional accrual during the year		5,260
Cost of warranty repairs and replacement during the year		<u>(6,100)</u>
31 December 20X2		<u>4,200</u>

The obligation is classified as a current liability because the warranty is limited to twelve months.

## 24. Employee benefit obligations

The Group operates a Mandatory Provident Fund Scheme (the MPF scheme) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the plan vest immediately.

## 25. Obligations under finance leases

The Group and the Company hold an item of specialised machinery with an estimated useful life of five years under a five-year finance lease. The future minimum lease payments are as follows:

	<u>The Group and the Company</u>	
	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Within one year	25,000	25,000
Later than one year but within five years	25,000	50,000
Later than five years	<u>—</u>	<u>—</u>
	<u>50,000</u>	<u>75,000</u>

The obligation is classified as:

	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Current liability	21,461	19,884
Non-current liability	<u>23,163</u>	<u>44,624</u>
	<u>44,624</u>	<u>64,508</u>

## 26. Deferred tax

The deferred tax assets are the tax effects of expected future income tax benefits relating to the foreign exchange loss on trade payables, which will not be tax-deductible until the payables are settled but has already been recognised as an expense in measuring the profit of the Group and the Company for the year.

The following are recognised deferred tax liabilities (assets):

	<u>The Group and the Company</u>		
	Software HK\$	Foreign exchange loss HK\$	Total HK\$
1 January 20X1	—	—	—
Credit to profit or loss for the year	<u>4,277</u>	<u>—</u>	<u>4,277</u>
1 January 20X2	4,277	—	4,277
Credit to profit or loss for the year	<u>(1,069)</u>	<u>(165)</u>	<u>(1,234)</u>
31 December 20X2	<u>3,208</u>	<u>(165)</u>	<u>3,043</u>

The deferred tax assets for the foreign exchange loss and the deferred tax liability for software relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the consolidated statement of financial position as follows:

	<u>The Group and the Company</u>	
	20X2 HK\$	20X1 HK\$
Deferred tax liability	3,208	4,277
Deferred tax assets	<u>(165)</u>	<u>—</u>
	<u>3,043</u>	<u>4,277</u>

At 31 December 20X2 and 20X1, there was no temporary difference associated with investments in a subsidiary and an associate for which deferred tax liabilities have not been recognised.

## 27. Commitments

### *10SCH(12(6))* (a) Capital commitments

Capital commitments outstanding at 31 December 20X2 not provided for in the financial statements are as follows:

	<u>The Group and the Company</u>	
	20X2 HK\$	20X1 HK\$
Contracted for	50,000	20,000
Authorised, but not contracted for	<u>100,000</u>	<u>50,000</u>
	<u>150,000</u>	<u>70,000</u>

## 27. Commitments (continued)



(b) Commitments under operating leases

The Group and the Company rent several sales offices under operating leases. The leases are for an average period of three years, with fixed rentals over the same period.

	<b>The Group and the Company</b>	
	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Minimum lease payments under operating leases recognised as an expense during the year	26,100	26,100

At the year-end, the Group and the Company had outstanding commitments under non-cancellable operating leases that fall due as follows:

	<b>The Group and the Company</b>	
	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
Within one year	13,050	26,100
Later than one year but within five years	—	13,050
Later than five years	—	—
	13,050	39,150

*10SCH(2(c), 4(1), 6&7)*

## 28. Share capital and profit attributable to equity shareholders

The balance of HK\$30,000 as at 31 December 20X2 and 20X1 comprised 30,000 ordinary shares with par value HK\$1.00 fully paid, issued and outstanding. An additional 70,000 shares are legally authorised but unissued.

*S123(5)(b)(ii)*

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK\$672,679 (20X1: HK\$417,038) which has been dealt with in the Company's financial statements.

*10SCH(13(1)(j))*

## 29. Dividends

Dividends payable to equity shareholders of the Company attributable to the year:

	<b>20X2</b>	<b>20X1</b>
	<b>HK\$</b>	<b>HK\$</b>
	<i>10SCH(13(1)(j))</i> Interim dividend declared and paid of HK\$5 per ordinary share (20X1: HK\$3.3 per ordinary share)	150,000
<i>10SCH(9(1)(e))</i> Final dividend proposed after the reporting date of HK\$1 per ordinary share (20X1: nil)	30,000	—
	180,000	100,000

Final dividends proposed after the reporting date are not recognised as a liability at the reporting date (note 31).

10SCH(12(5)) **30. Contingent liabilities**

During 20X2 a customer initiated proceedings against the subsidiary of the Company, XYZ (Trading) Limited, for a fire caused by a faulty [ ]. The customer asserts that its total losses are HK\$50,000 and has initiated litigation claiming this amount.

The Group's legal counsel does not consider that the claim has merit, and the Company intends to contest it. No provision has been recognised in these financial statements as the Group's management does not consider it probable that a loss will arise.

**31. Events after the reporting date**

On 25 January 20X3 there was a flood in one of the [ ] storage rooms. The cost of refurbishment is expected to be HK\$36,000. The reimbursements from insurance policies are estimated to be HK\$16,000.

On 14 February 20X3 the directors voted to declare a final dividend of HK\$1.00 per share (HK\$30,000 in total) payable on 15 April 20X3 to shareholders registered on 31 March 20X3. Because the obligation arose in 20X3, a liability is not shown in the statement of financial position at 31 December 20X2.

**32. Related party transactions**

The Group had sold goods to its associate (note 17), which is a related party, as follows:

	Sales of goods		Amounts owed to the Group by the related party and included in trade receivables at year-end	
	20X2	20X1	20X2	20X1
	HK\$	HK\$	HK\$	HK\$
Associate	10,000	8,000	800	400

The payments under the finance lease (note 25) are personally guaranteed by a principal shareholder of the Company. No charge has been requested for this guarantee.

The total remuneration of directors and other members of key management in 20X2 (including salaries and benefits) was HK\$249,918 (20X1: HK\$208,260).

S129A **33. Immediate parent and ultimate controlling party**

At 31 December 20X2, the directors consider the immediate parent and ultimate controlling party of the Group to be XYZ Investment Company Limited, which is incorporated in Hong Kong. This entity does not produce financial statements available for public use.

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