Sample Financial Statements 2006/07[1]

For the Year Ended 31 December 2006

5 July 2007

Sample Manufacturing Company Limited

Directors' report and financial statements
For the year ended 31 December 2006

[1] This set of Sample Financial Statements is designed for a fictitious company, Sample Manufacturing Company Limited, with the assumption that it is incorporated in Hong Kong and has no subsidiary. All the entities, persons and figures in the statements are fictitious and are used only as a basis for discussion. It is not intended to cover all accounting practices generally accepted in Hong Kong nor designed for a particular entity or industry. Endeavour has been made to provide accurate information but no guarantee can be made to ensure that the information is accurate and complete all the times. Users of this set of statements should have their own research and analysis and exercise their own judgements. Appropriate professional advice on their situation would be required before using or acting on the information.

Sample Manufacturing Company Limited
Directors' report and financial statements
For the year ended 31 December 2006

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[2] Additional notes may be required depending on specific circumstances, say contingenct assets, events after the balance sheet date and etc.

Sample Manufacturing Company Limited
Directors' report

CO 129D(1)

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2006.

Principal activities

CO 129D(3)a
HKAS 1.126b

The company's principal activities are the manufacturing and sale of garment products and rental business on its property investment.

Share capital

CO 129D(3)g

Details of share capital of the company are set out in note 27 to the financial statements.

Result and dividend

CO 129D(1)

The profit of the company for the year ended 31 December 2006 and the state of the company's affairs as at that date are set out in the financial statements on pages 5 to 36.

CO 129D(3)b

An interim dividend of HK$[ ] (2005: HK$[ ]) per share was paid on [ ]. The directors recommend the payment of a final dividend of HK$[ ] (2005: HK$[ ]) per share for 2006.

Charitable donations

CO 129D(3)e

Charitable donations of HK$[ ] (2005: HK$[ ]) were made by the company during the year.

Fixed assets

CO 129D(3)f

Movements in fixed assets are set out in note 13 to the financial statements.

Directors

CO 129D(3)(i)

The directors during the financial year and up to the date of this report were:
Ms. Bonnie Hung
Ms. TT Tong (appointed on 4 June 2006)
Mr. Tony Ton (resigned on 1 April 2007)

There is no provision in the company's articles of association for the retirement and rotation of directors. All the existing directors continue in office.

Directors' interests in contracts

No contract of significance in relation to the company's business to which the company, any of its holding companies or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted at the end of the year or at any time during the year.

Arrangements to acquire shares or debentures

At no time during the year was the company, any of its holding companies or fellow subsidiaries a party to any arrangement 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.

Auditors

Nelson and Company, Certified Public Accountants retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Nelson and Company, Certified Public Accountants as the company's auditors is to be proposed at the forthcoming annual general meeting.

By order of the board

Chairman
Hong Kong, [Date]

HKSA 700(17a & 17b)

Independent auditor's report to the shareholders of Sample Manufacturing Company Limited

(Incorporated in Hong Kong with limited liability)

CO 141(1)
HKSA 700(17c)

We have audited the financial statements of Sample Manufacturing Company Limited set out on pages 5 to 37, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

HKSA 700(17d)

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 Hong Kong Financial Reporting Standards 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.

HKSA 700(17e)

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.[3]

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.

HKSA 700(17f)
CO 141(3)

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 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

HKSA 700(17h)

Nelson and Company
Certified Public Accountants

HKSA 700(17i & 17j)

[Address], [Date]

[3] The revised paragraph is based on the recommendation found in the Professional Risk Management Bulletin, *Auditors' Duty of Care to Third Parties and the Audit Report*, issued by the HKICPA in May 2003 (http://www.hkicpa.org.hk/professionaltechnical/riskmanagement/duty_of_care.pdf).

HKAS 1.8b & 1.46; CO 125(1)

Income statement for the year ended 31 December 2006[4]

(In Hong Kong dollars)

HKAS reference		Note	2006 HK$	2005 HK$
HKAS 1.104				
HKAS 1.46e				
HKAS 1.81a	**Turnover**	6		
HKAS 1.88	Cost of sales			
HKAS 1.88	Gross profit			
	Other income	7		
HKAS 1.88	Administrative expenses			
HKAS 1.88	Distribution costs			
HKAS 1.88	Other expenses			
	Operating profit			
HKAS 1.81b	Finance costs	8		
HKAS 1.81c	Share of profits less losses of associates	16		
HKAS 1.81c	Share of profits less losses of jointly controlled entities	17		
	Profit before tax	9		
HKAS 1.81d				
HKAS 12.77	Income tax expense	10		
HKAS 1.81f	**Profit for the year**			
10-Sch.13(1j)	**Dividends**	12		
	Interim dividend declared during the year			
	Final dividend proposed after the balance sheet date			

The notes on pages 9 to 37 are part of these financial statements.

[4] Per HKAS 1.88, the analysis of expenses can be based on either the nature of expenses or their function within the entity. The analysis in this income statement is based on the function of expenses.

HKAS 1.8a, & 1.46; CO 125(1)

Balance sheet as at 31 December 2006[5]

(In Hong Kong dollars)

		Note	2006 HK$	2005 HK$
HKAS 1.104; HKAS 1.46e				
HKAS 1.57	**Non-current assets**			
10-Sch.4(2)	Fixed assets – property, plant and equipment	13		
HKAS 1.68b	Investment property	14		
HKAS 1.69	Lease premium for land	15		
HKAS 1.69 & 28.38e	Interests in associates	16		
HKAS 1.68e	Interests in jointly controlled entities	17		
HKAS 1.68d	Non-current financial assets	18		
10-Sch.4(2)				
HKAS 1.57	**Current assets**			
HKAS 1.57	Trading securities	19		
HKAS 1.68g	Inventories	20		
HKAS 1.68h	Trade and other receivables	21		
HKAS 1.68i	Cash and cash equivalents	22		
HKAS 1.60	**Current liabilities**			
HKAS 1.68j	Trade and other payables	23		
HKAS 1.68l	Bank loans and overdrafts	24		
HKAS 1.68l	Obligations under finance leases	25		
HKAS 1.68m	Current tax payable	26		
	Net current assets			
	Total assets less current liabilities			
HKAS 1.60	**Non-current liabilities**			
HKAS 1.68l	Bank loans	24		
HKAS 1.68l	Obligations under finance leases	25		
HKAS 1.68n	Deferred tax liabilities	26		
10-Sch.8				
	NET ASSETS			
	EQUITY			
HKAS 1.68p	Share capital	27		
10-Sch(6) & HKAS 1.68p	Reserves	28		
HKAS 1.68p	**TOTAL EQUITY**			

The financial statements were approved and authorised for issue by the board of directors on [Date].

Director   Director

The notes on pages 9 to 37 are part of these financial statements.

[5] HKAS 1 page 57 and 58 set out an alternative format which is not the same as the current set of statements.

HKAS 1.8c(i) & 1.46

Statement of changes in equity for the year ended 31 December 2006[6]

(In Hong Kong dollars)

Reference		Note	Share capital HK$	Fair value reserves HK$	Retained earnings HK$	Total equity HK$
HKAS 1.97c; HKAS 1.46e						
HKAS 1.97b & HKAS 8.28f(i)	**Balance at 1 January 2005** as previously reported					
HKAS 1.96d	Changes in accounting policy:	4				
	Balance at 1 January 2005 as restated					
HKAS 1.97b	**Changes in equity for 2005**					
HKAS 1.96b 32.94h(ii)	Fair value changes on available-for-sale financial assets taken to equity	18				
	Transfer upon sale of available-for-sale financial assets	18				
	Net income recognised directly in equity					
HKAS 1.96a	Profit for the year					
HKAS 1.96c	**Total recognised income and expense for the year**					
HKAS 1.97a	Dividends	12				
HKAS 1.97b	**Balance at 31 December 2005**					
HKAS 1.97b & HKAS 8.28f(i)	**Balance at 1 January 2006** as previously reported					
HKAS 1.96d	Changes in accounting policy:	4				
	Balance at 1 January 2006 as restated					
HKAS 1.97b	**Changes in equity for 2006**					
HKAS 1.96b 32.94h(ii)	Fair value changes on available-for-sale financial assets taken to equity	18				
	Transfer upon sale of available-for-sale financial assets	18				
	Net income recognised directly in equity					
HKAS 1.96a	Profit for the year					
HKAS 1.96c	**Total recognised income and expense for the year**					
HKAS 1.97a	Dividends	12				
HKAS 1.97b	**Balance at 31 December 2006**					

The notes on pages 9 to 37 are part of these financial statements.

[6] The current statements set out one of the two formats in HKAS 1. Alternatively, a company can choose to adopt another format in HKAS 1, but it should then be named as “statement of recognised income and expense”.

HKAS 1.8d and 1.46

Cash flow statement for the year ended 31 December 2006

(In Hong Kong dollars)

		Note	2006 HK$	2005 HK$
HKAS 1.104 HKAS 1.46e				
HKAS 7.18b	**Cash flows from operating activities**			
	Profit before tax			
	Adjustments for:			
	- Depreciation			
	- Finance costs			
	- Foreign exchange loss/(gain)			
	- Investment income			
	- Loss/(gain) on sale of fixed assets			
	- Net gain on sale of available-for-sale financial assets (transferred from equity)			
	Operating profit before working capital changes			
	(Increase)/decrease in inventories			
	Increase in trade and other receivables			
	Decrease in trade and other payables			
	Cash generated from operations			
	Interest paid			
HKAS 7.35	Hong Kong income taxes paid			
HKAS 7.10	*Net cash from/(used in) operating activities*			
HKAS 7.21	**Cash flows from investing activities**			
	Dividends received			
	Interest received			
	Proceeds from sale of available-for-sale financial assets			
	Proceeds from sale of equipment			
	Purchase of available-for-sale financial assets			
HKAS 7.31	Purchase of property, plant and equipment			
HKAS 7.31	Purchase of trading securities			
HKAS 7.10	*Net cash used in investing activities*			
HKAS 7.21	**Cash flows from financing activities**			
	Dividends paid			
	Payment of finance lease liabilities			
HKAS 7.31	Proceeds from interest-bearing borrowings			
HKAS 7.10	*Net cash from financing activities*			
HKAS 7(App)	**Net increase in cash and cash equivalents**			
	Cash and cash equivalents at beginning of the year	22		
	Cash and cash equivalents at end of the year	22		

The notes on pages 9 to 37 are part of these financial statements.

HKAS 1.8d

Notes to financial statements for the year ended 31 December 2006

(In Hong Kong dollars)

1. General information

HKAS 1.126

Sample Manufacturing Company Limited (the company) is a limited liability company domiciled and incorporated in Hong Kong. The address of its registered office and principal place of business are [*Room 304, 3th Floor, Tung Wah Mansion, 199 – 201 Hennessy Road, Wan Chai, Hong Kong*].[7] Its principal activities are the manufacturing and sale of garment products and rental business on its property investment.

HKAS 1.14

2. Statement of compliance with Hong Kong Financial Reporting Standards

The company's financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong, and the requirements of the Hong Kong Companies Ordinance. A summary of significant accounting policies is set out in note 3.

In 2006, the company has initially applied the new and revised HKFRSs issued by the HKICPA that are first effective [or available for early adoption] for accounting periods beginning on or after 1 January 2006. A summary of the changes in accounting policies resulting from the company's application of these HKFRSs is set out in note 4.

HKAS 1.108

3. Summary of significant accounting policies

a. Basis of preparation of the financial statements

HKAS 1.108a

The measurement basis used in preparing the financial statements is historical cost, except for investments in trading securities and available-for-sale financial assets, which are stated at fair value (see note 3f), and non-current assets and disposal groups held for sale, which are stated at the lower of carrying amount and fair value less costs to sell (see note 3p).

[7] HKAS 1.126 requires that "an entity shall disclose …… if not disclosed elsewhere in information published *with* the financial statements ……". It is an understanding that it is not a mandatory requirement to disclose the domicile, the address of registered office, the principal place of business and etc. in the financial statements. Since they can be instead disclosed in elsewhere published together with the financial statements, say the directors' report, chairman's statement, if any, and etc.

HKAS 1.108

3. Summary of significant accounting policies (continued)

10-Sch.4(3)

b. Fixed assets[8]

HKAS 16.73a

Fixed assets represent property, plant and equipment and are stated in the balance sheet at cost less accumulated depreciation and impairment losses, if any.

HKAS 16.73b& 16.73c

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, on a straight-line basis over their estimated useful lives as follows:

- Buildings: 50 years or the unexpired term of lease, if any and shorter
- Plant and machinery: 5 - 8 years
- Furniture and equipment: 3 - 5 years

The residual value and the useful life of an asset are reviewed at least at each financial year-end.

The company assesses at each reporting date whether there is any indication that any items of property, plant and equipment may be impaired and that an impairment loss recognised in prior periods for an item may have decreased. If any such indication exists, the company estimates the recoverable amount of the item. An impairment loss, being the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, or a reversal of impairment loss is recognised immediately in profit or loss.[9]

Gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised and is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

c. Investment property

HKAS 40.75a

Investment properties, being properties owned or held under finance leases to earn rentals,[10] are stated in the balance sheet at cost less accumulated depreciation and impairment losses, if any.[11]

Depreciation and impairment loss are calculated and recognised in the same manner as the depreciation and impairment loss on fixed assets as set out in note 3b.

HKAS 40.75a

Gain or loss arising from the retirement or disposal of an investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss in the period of the retirement or disposal.

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[8] The Companies Ordinance (10th Schedule para. 4(2)) states that “fixed assets, current assets and assets that are neither fixed nor current shall be separately identified” in the balance sheet. While fixed assets are not specifically defined in the Ordinance, the current statements specific property, plant and equipment as fixed assets.

[9] The current set of statements has combined the accounting policy on individual asset with the corresponding impairment requirements. If a separate accounting policy on impairment of assets is set out, it will be better to delete the corresponding impairment policy embedded in those accounting policies in order to avoid overlapping.

[10] The definition of investment property in HKAS 40 has a wider scope and includes “for capital appreciation or both”. In case the small and medium sized companies may not have such property, it is better to restrict it to rental purpose only. If there are such other kinds of investment property, the accounting policy should be modified accordingly to include such property.

[11] Under HKAS 40, the fair value model can also be chosen with specified restriction but the cost model (instead of fair value model) is also adopted in the statements.

HKAS 1.108

3. Summary of significant accounting policies (continued)

d. Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases of assets are classified as finance leases when the leases transfer substantially all risks and rewards incidental to ownership of the assets to the company. All other leases are classified as operating leases.

i) Finance leases

Assets held under finance leases are recognised in the balance sheet at amounts equal to the fair value of the leased assets, or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liabilities, net of finance charges, on the finance leases are recorded as obligations under finance leases. All assets held under finance leases are classified as fixed assets, except for those properties held to earn rental income which are classified as investment property.

Depreciation and impairment loss[12] are calculated and recognised in the same manner as the depreciation and impairment loss on fixed assets as set out in note 3b, except for the estimated useful lives cannot exceed the relevant lease terms, if shorter.

Minimum lease payments are apportioned between finance charge and the reduction of the outstanding liabilities. The finance charge is recognised in profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

ii) Leases of land and building

Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease.

The land element is classified as an operating lease unless title is expected to pass to the lessee by the end of the lease term. The buildings element is classified as a finance or operating lease in the same way as leases of other assets.

If the lease payments on a lease of land and building cannot be allocated reliably between the land and building elements at the inception of the lease, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

iii) Operating leases

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. The payments made on acquiring land held under an operating lease are recognised in the balance sheet as lease premium for land.

Contingent rents are charged as an expense in the periods in which they are incurred.

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[12] HKAS 17.30 requires the assessment of impairment on leased assets in accordance with HKAS 36.

HKAS 1.108

3. Summary of significant accounting policies (continued)

e. Associates and jointly controlled entities

An associate is an entity, including an unincorporated entity, over which the company has significant influence and that is neither a subsidiary nor an interest in a joint venture.

HKAS 31.57

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which the company has an interest. A joint venture is a contractual arrangement whereby the company and one or more of other parties undertake an economic activity that is subject to joint control, which is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

An investment in an associate or a jointly controlled entity[13] is accounted for using the equity method and is initially recognised at cost and adjusted thereafter for the post-acquisition change in the company's share of net assets of the associate or jointly controlled entity, unless it is classified as held for sale or included in a disposal group held for sale (see note 3p). The profit or loss of the company includes its share of the profit or loss of the associate or jointly controlled entity.

If the company's share of losses of an associate or a jointly controlled entity equals or exceeds its interest in the associate or the jointly controlled entity, the company discontinues recognising its share of further losses. The interest in an associate or a jointly controlled entity is the carrying amount of the investment in the associate or the jointly controlled entity under the equity method together with any long-term interests that, in substance, form part of the company's net investment in the associate or the jointly controlled entity. After the company's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the company has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity.[14]

Profits and losses resulting from the company's transactions with the associate or the jointly controlled entity are eliminated to the extent of the company's relevant interests in the associate or the jointly controlled entity, except where the losses provide evidence of an impairment of the asset transferred in which case losses are recognised immediately for the impairment.

HKAS 32.60b

f. Investments

HKAS 32.61

Investments are recognised and derecognised on the trade date when the company commits itself to purchase or sell an asset and are initially measured at fair value plus, in the case of investments other than trading securities, transaction costs. At each balance sheet date, the company assesses whether there is any objective evidence that an investment or group of investments is impaired. Investments are further categorised into the following classifications for the measurement after initial recognition.

[13] Equity method is not required when the associate or jointly controlled entity is classified as held for sale or is included in a disposal group in accordance with HKFRS 5 *Non-current assets held for sale and discontinued operations*.

[14] Goodwill may arise from the acquisition of associates or jointly controlled entities but the current statements have made the assumption that there is no goodwill relating to the associates and jointly controlled entities.

HKAS 1.108

3. **Summary of significant accounting policies** (continued)

i) Trading securities

Investments in securities held for trading are classified as trading securities included in current assets and are stated in the balance sheet at fair value. Any attributable transaction costs and gain or loss on the fair value changes of trading securities are recognised in profit or loss.

ii) Held-to-maturity investments

Investment in debt securities with fixed or determinable payments and fixed maturity that the company has the positive intention and ability to hold to maturity are classified as held-to-maturity investments, which are measured at amortised cost using the effective interest method, less impairment losses, if any.

Impairment losses on held-to-maturity investments are recognised in profit or loss when there is objective evidence that an impairment loss has been incurred and are measured as the difference between its carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate, i.e. the effective interest rate computed at initial recognition.

iii) Available-for-sale financial assets

Investments other than those held for trading and held to maturity are classified as available-for-sale financial assets and are stated in the balance sheet at fair value. Gain or loss on the fair value changes of available-for-sale financial assets is recognised directly in equity in the fair value reserves, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss.

When the available-for-sale financial assets are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where the available-for-sale financial assets are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

HKAS 1.108

3. Summary of significant accounting policies (continued)

iv) Unquoted equity instruments carried at cost

Investments in unquoted equity instruments whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, is measured at cost less impairment losses, if any.

If there is objective evidence that an impairment loss has been incurred on such instrument, the amount of impairment loss is measured as the difference between its carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar instrument. Such impairment losses are not reversed.

HKAS 32.92
HKAS 39.AG64

v) Fair value

Fair value of an investment on initial recognition is normally the transaction price, unless it is estimated by using a valuation technique when part of the consideration given or received is for something other than the investments.

After initial recognition, the fair value of an investment quoted in an active market is based on the current bid price and, for investments not quoted in an active market, the company establishes the fair value of such investment by using a valuation technique.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

HKAS 32.56
HKAS 32.60b

g. Derivative financial instruments

Derivative financial instruments are initially recognised at fair value and the fair value is re-measured at each balance sheet date. Gain or loss on the fair value changes are recognised in profit or loss.[15]

10-Sch.12(13)
& HKAS 2.36a

h. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition and is assigned by using the weighted average cost formula.[16] Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

[15] If hedge accounting is adopted, the accounting policy on derivative financial instruments will be revised.
[16] Alternatively, first-in, first-out (FIFO) cost formula can be used in accordance with HKAS 2 *Inventories*.

HKAS 1.108

3. Summary of significant accounting policies (continued)

i. Trade and other receivables

HKAS 32.60b

Trade and other receivables are initially measured at fair value and, after initial recognition, at amortised cost less impairment losses for bad and doubtful debts, if any, except for the following receivables:

- Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less impairment losses for bad and doubtful debt, if any; and
- HKAS 32.AG79 Short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount less impairment losses for bad and doubtful debt, if any.

At each balance sheet date, the company assesses whether there is any objective evidence that a receivable or group of receivables is impaired. Impairment losses on trade and other receivables are recognised in profit or loss when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate, i.e. the effective interest rate computed at initial recognition. The impairment loss is reversed if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised.

j. Cash and cash equivalents

HKAS 7.46

Cash comprises cash on hand and at bank and demand deposits with bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purpose of cash flow statement, bank overdrafts which are repayable on demand form an integral part of the company's cash management are included as a component of cash and cash equivalents.

HKAS 32.60b

k. Trade and other payables

HKAS 32.60b & 32.AG79

Trade and other payables are initially measured at fair value and, after initial recognition, at amortised cost, except for short-tem payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount.

HKAS 32.60b

l. Interest-bearing borrowings

Interest-bearing borrowings, mainly bank loans and overdrafts, are measured initially at fair value less transaction costs and, after initial recognition, at amortised cost, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

HKAS 1.108

3. Summary of significant accounting policies (continued)

m. Income tax

Income tax for the year includes current tax and deferred tax. Current tax and deferred are recognised in profit or loss, except to the extent that the tax arises from a transaction or event which is recognised directly in equity. In the case if the tax relates to items that are recognised directly to equity, current tax and deferred tax are also recognised directly to equity.

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or loss for a period.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively. Temporary differences are the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

At each balance sheet date, the company reviews and assesses the recognised and unrecognised deferred tax assets and the future taxable profit to determine whether any recognised deferred tax assets should be derecognised and any unrecognised deferred tax assets should be recognised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities are not discounted.

HKAS 1.108

3. **Summary of significant accounting policies** (continued)

10`Sch.16(4) &
HKAS 18.35a

n. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the company. Provided that it is probable that the economic benefits associated with the revenue transaction will flow to the company and the revenue and the costs, if any, in respect of the transaction can be measured reliably, revenue is recognised as follows:

i) Sales of goods
Revenue from the sales of good is recognised when the company has delivered the goods to the customers and the customer has accepted the goods together with the risks and rewards of ownership of the goods.

ii) Rental income from investment properties
Rental income from operating leases is recognised in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit.

iii) Dividends
Dividend income is recognised when the shareholder's right to receive payment is established.

iv) Interest income
Interest income is recognised using the effective interest method.

o. Foreign currency translation

10-Sch.12(14)

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. At each balance sheet date, monetary assets and liabilities in foreign currencies are translated at the foreign exchange rates ruling at that date. Non-monetary assets and liabilities that are measured at fair value in foreign currencies are translated at the foreign exchange rates ruling at the date when the fair value was determined. Exchange gains and losses are recognised in profit or loss.[17]

p. Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

[17] HKAS 21.53 requires that "when the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency". As no difference is assumed, no such separate disclosure is set out in this set of statements.

HKAS 1.108

3. **Summary of significant accounting policies** (continued)

q. Financial guarantee contracts[18]

A financial guarantee contract is a contract that requires the company to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The company has asserted, through its communications with customers, contracts, business documentation or financial statements, that it regards the financial guarantee contracts as insurance contracts and used accounting applicable to insurance contracts. The company elects to apply HKFRS 4 to such contracts. The election applies to all existing contracts and new contracts on a contract-by-contract basis, but is irrevocable for each contact elected.

The company discloses the financial guarantee contracts as a contingent liability. Provisions are recognized when it is probable that the company has obligations under such contracts and an outflow of resources embodying economic benefits will be required to settle the obligations.

r. Related parties

For the purposes of these financial statements, a party is considered to be related to the company if:

i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the company, has an interest in the company that gives it significant influence over the company, or has joint control over the company;

ii) the party is an associate of the company;

iii) the party is a joint venture in which the company is a venture;

iv) the party is a member of the key management personnel of the company or its parent;

v) the party is a close member of the family of any individual referred to in (i) or (iv);

vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

vii) the party is a post-employment benefit plan for the benefit of employees of the company, or of any entity that is a related party of the company.

[18] Different case should have different particular circumstances and different disclosure should be required. Note 3q should also be considered and amended with note 4 and note 33 together.

HKAS 8.28

4. Changes in accounting policies[19]

In 2006, the company has initially applied the new and revised HKFRSs issued by the HKICPA that are first effective for accounting periods beginning on or after 1 January 2006, including:

- Amendments to HKAS 39 *Financial instruments: recognition and measurement* and HKFRS 4 *Insurance Contracts – Financial guarantee contracts*

Amendments to HKAS 39 and HKFRS 4 – *Financial guarantee contracts* requires the company to recognise financial guarantee contacts as financial liabilities. The contacts are initially measured at fair value plus transaction costs and subsequently measured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*, except for the following financial guarantee contracts:

- The contracts recognised at fair value through profit or loss; and
- The contracts excluded from the scope of HKAS 39 when the company has asserted explicitly that it regards the financial guarantee contracts as insurance contracts and has used accounting applicable to insurance contracts.

The company has asserted, through its communications with customers, contracts, business documentation or financial statements, that it regards the financial guarantee contracts as insurance contracts and used accounting applicable to insurance contracts. The company elects to apply HKFRS 4 to such contracts. The accounting policy on financial guarantee contracts is set out in note 3q.[20]

The application of the new and revised HKFRSs, including the amendments to HKAS 39 and HKFRS 4, has no material effects on the company's financial performance and positions.

HKAS 1.113 & 116

5. Critical accounting estimates and judgement

The company's management makes assumptions, estimates and judgements in the process of applying the company's accounting policies that affect the assets, liabilities, income and expenses in the financial statements prepared in accordance with HKFRSs. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

HKAS 1.116

a. *Key assumption and other key sources of estimation uncertainty*
Certain key assumptions and risk factors in respect of the financial risk management are set out in note 31. Other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out as follows:

[19] The current statements set out some relevant changes for 2006. An entity may have more or less disclosure requirements in view of its particular circumstances and situation. In addition, an entity may have more changes in accounting policies and this note and note 34 (comparative figures) should be considered and amended together.

[20] Different case should have different particular circumstances and different disclosure should be required. Note 4 should also be considered and amended with note 4 and note 33 together.

HKAS 1.113 & 116

5. Critical accounting estimates and judgement (continued)

i) Impairment on jointly controlled entities[21]

As set out in note 17, impairment losses have been recognised on the interests in jointly controlled entities and it is mainly related to a full impairment provision on the interest in a jointly controlled entity, Nelson (JV) Limited. The impairment was determined by using value-in-use calculations, which requires the use of estimates, including mainly the continuous loss making in the jointly controlled entity.

If the actual trading results of that jointly controlled entity were improved continuously in the future, the company would be able to reverse full or partial impairment provision then.

HKAS 1.113

b. Critical judgements in applying the company's accounting policies[22]

Certain critical judgements in applying the company's accounting policies are set out as follows:

HKAS 1.113

i) Held-to-maturity investments

Certain investments in debt securities containing embedded derivatives, mainly bank notes with enhanced interest payment options, are entirely classified as held-to-maturity investments and the embedded derivatives are not separated. The company considers that the economic characteristics and risks of the embedded derivatives, i.e. the enhanced interest payment options, are closely related to the economic characteristics and risks of the host contract, i.e. the bank notes.

6. Turnover

10-Sch.16(4)
HKAS 18.35b

Turnover represents the invoiced value of goods sold to customers and rental income as follows:

		2006	2005
		HK$	HK$
	Sales of electronic products		
HKAS 40.75f(i)	Rental income from investment property		

7. Other income

		2006	2005
		HK$	HK$
10-Sch.13(1g)	Dividend income from listed securities		
	Dividend income from unlisted securities		
10-Sch.13(1g) HKAS 32.94h	Interest income from listed securities		
	Net gain on sale of property, plant and equipment		
HKAS 32.94h	Net realised and unrealised gain on trading securities		
HKAS 32.94h	Net gain on sale of available-for-sale financial assets transferred from equity		
HKAS 32.94h	Other interest income		

[21] Examples include: in the absence of recently observed market prices used to measure the following assets and liabilities, future-oriented estimates are necessary to measure the recoverable amount of classes of property, plant and equipment, the effect of technological obsolescence on inventories, provisions subject to the future outcome of litigation in progress, and long-term employee benefit liabilities such as pension obligations. (HKAS 1.117)

[22] Examples include: (a) whether financial assets are held-to-maturity investments; (b) when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities; (c) whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and (d) whether the substance of the relationship between the entity and a special purpose entity indicates that the special purpose entity is controlled by the entity. (HKAS 1.114)

HKAS 32.94h(i)

8. Finance costs

		2006 HK$	2005 HK$
	Finance charges on obligations under finance leases		
10-Sch.13(1)b	Interest on bank advances and other borrowings wholly repayable within five years		
10-Sch.13(1)b	Interest on other loans		

9. Profit before tax

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

		2006 HK$	2005 HK$
HKAS 1.93b	*Staff costs*		
HKAS 19.46	- Contributions to defined contribution plan		
	- Salaries, wages and other benefits		
10-Sch.15	Auditors' remuneration		
	Amortisation of lease premium for land		
HKAS 2.36d	Cost of inventories		
10-Sch.13(1)a & HKAS 1.93	Depreciation		
	- assets held for use under operating leases		
	- other assets		
	Impairment losses		
HKAS 36.126a	- property, plant and equipment		
HKAS 36.126a	- investment properties		
HKAS 32.94(i)	- trade and other receivables		
HKAS 21.52a	Net foreign exchange loss/(gain)		
10-Sch.13(1)i & HKAS 17.35c	Operating lease charges		
	- hire of plant and machinery		
	- hire of other assets (including property rentals)		
HKAS 36.126b	Reversal of impairment losses on trade and other receivables		

10. Income tax in the income statement

		2006 HK$	2005 HK$
HKAS 12.79	a. *Taxation in the income statement represents:*		
	Current tax – Hong Kong profits tax		
10-Sch.12(15), 13(1)c & 17(3) & HKAS 12.80	Provision for the year is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year		
10-Sch.17(4) & HKAS 12.80b	Under/(over) provision in respect of previous years		
	Deferred tax		
HKAS 12.80c	Origination and reversal of temporary differences		

10. Income tax in the income statement (continued)

HKAS 12.81c

b. Reconciliation between tax expense and accounting profit at applicable tax rates:

	2006 HK$	2005 HK$
Profit before tax		
Tax at the applicable tax rate of 17.5% (2005: 17.5%)		
Tax effect of non-deductible expenses		
Tax effect of non-taxable revenue		
Tax effect of unused tax losses not recognised		
Under/(over) provision in previous years		
Others		
Income tax expense		

11. Directors' remuneration

CO 161, HKAS 24.16

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

	2006 HK$	2005 HK$
Directors' fees		
Salaries and allowances		
Benefits other than in cash		
Discretionary bonuses		
Contributions to defined contribution plan		

12. Dividends

10-Sch.13(1)j

HKAS 1.95

a. Dividends payable attributable to the current year

	2006 HK$	2005 HK$
Interim dividend declared and paid of HK$[ ] (2005: HK$[ ]) per share		
HKAS 1.125(a) & HKAS 10.13 Final dividend proposed after the balance sheet date of HK$[ ] (2005: HK$[ ]) per share		

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

b. Dividends payable attributable to the previous financial year, approved and paid during the year

	2006 HK$	2005 HK$
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$[ ] (2005: HK$[ ]) per share		

13. Fixed assets

		Building	Plant and machinery	Furniture & equipment	Total
		HK$	HK$	HK$	HK$
	Cost:				
HKAS 16.73d	At 1 January 2005				
10-Sch.12(8) & HKAS 16.73e.i	Additions				
10-Sch.12(8) & HKAS 16.73e.ii	Disposals				
10-Sch.5(3)a & HKAS 16.73d	At 31 December 2005				
	Accumulated depreciation:				
HKAS 16.73d	At 1 January 2005				
HKAS 16.73e	Charge for the year				
HKAS 16.73e.ii	Written back on disposals				
10-Sch.5(3)b	At 31 December 2005				
HKAS 16.73d	*Net book value:*				
	At 31 December 2005				
	Cost:				
HKAS 16.73d	At 1 January 2006				
10-Sch.12(8) & HKAS 16.73e.i	Additions				
10-Sch.12(8) & HKAS 16.73e.ii	Disposals				
10-Sch.5(3)a & HKAS 16.73d	At 31 December 2006				
	Accumulated depreciation:				
HKAS 16.73d	At 1 January 2006				
HKAS 16.73e	Charge for the year				
HKAS 16.73e.ii	Written back on disposals				
10-Sch.5(3)b	At 31 December 2006				
HKAS 16.73d	*Net book value:*				
	At 31 December 2006				

HKAS 17.31a & HKAS 17.31e

The buildings located in the land held under operating lease are considered to be held under finance leases. In addition, the net book value of plant and machinery held under finance leases was $[ ] (2005: $[ ]).

14. Investment property

	2006	2005
	HK$	HK$
Cost:		
At 1 January		
Additions		
Disposals		
At 31 December		
Accumulated depreciation:		
At 1 January		
Charge for the year		
Written back on disposals		
At 31 December		
Net book value:		
At 31 December		

HKAS 17.56a to 17.56c

The company leases out investment property under operating leases. The lease term for a property is normally for a period of 3 years. Lease payments would be reviewed after the expiry of the lease to reflect market rentals. No contingent rent is incorporated in the leasing arrangement.

The future minimum lease payments under those non-cancellable operating leases in the aggregate and for each of the following periods are:

	2006	2005
	HK$	HK$
Not later than one year		
Later than one year and not later than five years		
Later than five years		

HKAS 17.79e

At the balance sheet date, the fair value of the investment property was HK$[ ] (2005: HK$[ ]), which was determined by the directors based on independent valuations on the basis of depreciated replacement cost on the property.[23]

[23] In accordance with HKAS 40, only building portion of a lease considered as a finance lease can be classified as investment property and carried at cost. The cost is measured in accordance with the cost model under HKAS 16. Under HKAS 16.33, if there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold (for example the building of a lease of land and building), except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach.

15. Lease premium for land

		2006	2005
		HK$	HK$
	Cost:		
	At 1 January		
	Additions		
	Disposals		
	At 31 December		
	Accumulated amortisation:		
	At 1 January		
	Charge for the year		
	Written back on disposals		
	At 31 December		
	Net book value:		
	At 31 December		
	Representing:		
10-Sch.12(9)a	In Hong Kong		
& 31c	- long leases		
HKAS 17.31e & 35d	- medium-term leases		

16. Interests in associates

		2006 HK$	2005 HK$
	Share of net assets of associates:		
	Balance as at 1 January		
HKAS 28.38	Share of profits less losses of associates		
	- Share of profits less losses before tax		
	- Share of tax expenses		
	Balance as at 31 December		
10-Sch.9(1)a &31a	Unlisted shares, at cost[24]		

CO 129 The particulars of the company's principal associates, all of which are unlisted and limited liability companies, are set out as follows:

Name	*Particulars of issued and paid up capital*	*Percentage of interest held*	*Principal activity*	*Place of incorporation and operation*
Stephanie (Asso.) Limited	10,000 ordinary shares of HK$1 each	40%	Garment manufacturing	Hong Kong
Nelson (Asso.) Limited	10,000 ordinary shares of HK$1 each	30%	Trading of garment products	Hong Kong

HKAS 28.37b *Summary financial information on associates:*

	2006 HK$	2005 HK$
Assets		
Liabilities		
Revenues		
Profit/(loss)		

[24] HKAS 28.37a requires the disclosure of the fair value of investments in associates for which there are published price quotations.

17. Interests in jointly controlled entities

	2006 HK$	2005 HK$
Share of net assets of jointly controlled entities:		
Balance as at 1 January		
Share of profits less losses of jointly controlled entities		
- Share of profits less losses before tax		
- Share of tax expenses		
Less: Impairment losses		
Balance as at 31 December		
10-Sch.9(1)a &31a — Unlisted shares, at cost		

CO 129
HKAS 31.56

The particulars of the company's jointly controlled entities, all of which are unlisted and limited liability companies, are set out as follows:

Name	*Particulars of issued and paid up capital*	*Percentage of interest held*	*Principal activity*	*Place of incorporation and operation*
Stephanie (JV) Limited	10,000 ordinary shares of HK$1 each	50%	Garment manufacturing	Hong Kong
Nelson (JV) Limited	10,000 ordinary shares of HK$1 each	50%	Trading of garment products	Hong Kong

HKAS 31.56

Summary financial information on jointly controlled entities related to the company's interests:

	2006 HK$	2005 HK$
Non-current assets		
Current assets		
Non-current liabilities		
Current liabilities		
Net assets		
Income		
Expenses		
Tax expenses		
Profit/(loss) for the year		

18. Non-current financial assets[25]

		2006 HK$	2005 HK$
10-Sch.9(1)a	*Held-to-maturity investments, at amortised cost:*		
& 31a	- Listed debt securities in Hong Kong		
HKAS 1.74	- Listed debt securities outside Hong Kong		
	Available-for-sale financial assets, at fair value:[26]		
	- Unlisted debt securities		
10-Sch.9(1)a	- Unlisted equity securities		
HKAS 39.105	- Listed equity securities in Hong Kong		
10-Sch.12(11)	Market value of listed securities		
HKAS 32.86	Fair value of held-to-maturity investments		

19. Trading securities[27]

		2006 HK$	2005 HK$
10-Sch.9(1)a,	Listed equity securities, at market value		
9(3) & 31a	- in Hong Kong		
HKAS 32.94e(i)	- outside Hong Kong		

HKAS 2.36b

20. Inventories

		2006 HK$	2005 HK$
	Raw materials		
	Work in progress		
	Finished goods		
	Goods in transit		
HKAS 2.36h	Inventories pledged as security for liabilities		

25 Other non-current loan receivables and loans to associates or jointly controlled entities can also be classified as other non-current financial assets. In addition, In accordance with HKAS 32.63h, when financial instruments held create a potentially significant exposure to the risks, in the case of an instrument for which cash flows are denominated in a currency other than the entity's functional currency, the currency in which receipts or payments are required. Example is set out in the footnote for note 21 to the financial statements on page 29.

26 If there are investments in unquoted equity instruments measured at cost under HKAS 39 because their fair value cannot be measured reliably, HKAS 32.90 requires that fact shall be disclosed together with a description of the financial instruments, their carrying amount, an explanation of why fair value cannot be measured reliably and, if possible, the range of estimates within which fair value is highly likely to lie.

27 Ditto.

HKAS 2.36b

20. **Inventories** (continued)

		2006 HK$	2005 HK$
HKAS 2.36d	*The amount of inventories recognised as an expense during the year:*		
	Carrying amount of inventories sold		
HKAS 2.36e	Write-down of inventories		
HKAS 2.36f	Reversal of write-down of inventories		

HKAS 2.36g

The reversal of write-down of inventories made in previous years arose due to an increase in the estimated net realisable value of certain garment goods as a result of the fact that the goods had been disposed of.

21. Trade and other receivables[28]

		2006 HK$	2005 HK$
HKAS 1.74	Amounts due from fellow subsidiaries		
HKAS 24.18d	Amounts due from associates		
HKAS 24.18e	Amounts due from jointly controlled entities		
	Bills receivable		
10-Sch.18(2)	Debtors, deposits and prepayments		

22. Cash and cash equivalents[29]

HKAS 7.45

	2006 HK$	2005 HK$
Cash at bank and on hand		
Deposits with banks		
Cash and cash equivalents in the balance sheet		
Bank overdrafts (note 24)		
Cash and cash equivalents in the cash flow statement		

[28] In accordance with HKAS 32.63h, when financial instruments held create a potentially significant exposure to the risks, in the case of an instrument for which cash flows are denominated in a currency other than the entity's functional currency, the currency in which receipts or payments are required. If trade and other receivables include significant balances in foreign currency, the following note would be required:
Trade and other receivables include the following amounts denominated in a currency other than the company's functional currency, HK dollars:

	2006	2005
US dollars	*US$*	*US$*
Euro dollars	*EUR*	*EUR*
Australia dollars	*AU$*	*AU$*

[29] Ditto.

HKAS 1.74

23. Trade and other payables[30]

		2006 HK$	2005 HK$
HKAS 24.18d	Amounts due to associates		
HKAS 24.18e	Amounts due to jointly controlled entities		
10-Sch.19(1) & HKAS 1.74	Amounts due to ultimate holding company and fellow subsidiaries		
	Creditors and accruals		

HKAS 32.60a

24. Bank loans and overdrafts

At 31 December 2006, the bank loans and overdrafts were repayable as follows:

		2006 HK$	2005 HK$
	Within 1 year or on demand		
	After 1 year[31]		
10-Sch.9(1)(d)			

HKAS 32.63g
10-Sch.10

At 31 December 2006, the bank loans and overdrafts were secured as follows:

	2006 HK$	2005 HK$
Unsecured bank overdrafts		
Bank loans		
- secured		
- unsecured		

HKAS 16.74a
HKAS 32.63g
HKAS 32.63j

At 31 December 2006, the company's buildings, investment property and leasehold land with an aggregate carrying value of HK$[ ] (2005: HK$[ ]) were pledged to secure the banking facilities amounted to HK$[ ] (2005: HK$[ ]).

The banking facilities are subject to common lending arrangements with the banks. In case the company contravened any condition of the arrangement or associated covenant, the outstanding balances of the facilities would become payable on demand. The facilities utilised by the company up to 31 December 2006 were HK$[ ] (2005: HK$[ ]) and none of the conditions and covenants had been contravened.

30 Ditto.
31 In accordance with HKAS 32.60a, a private company may be required to further disclose the repayment term of the borrowings in order to disclose the information that "may affect the amount, timing and certainty of future cash flows".

25. Obligations under finance leases

HKAS 17.31b & HKAS 32.60a

At 31 December 2006, the company had obligations under finance leases repayable, i.e. minimum lease payments, as follows:

	2006			2005		
	Present value HK$	Finance charge HK$	Total HK$	Present value HK$	Finance charge HK$	Total HK$
Not later than one year						
Later than one year and not later than five years						
Later than five years						

26. Income tax in the balance sheet

a. Current tax in the balance sheet represents:

	2006 HK$	2005 HK$
Provision for Hong Kong profits tax for the year		
Provisional profits tax paid		
Provision for Hong Kong profits tax relating to previous years		

b. Deferred tax assets and liabilities recognised:

HKAS 12.81g(i)

The components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are arising from depreciation allowances in excess of the related depreciation as follows:[32]

	HK$
At 1 January 2005	
HKAS 12.81g(ii) Deferred tax expense/(income) recognised in the income statement	
At 31 December 2005	
At 1 January 2006	
HKAS 12.81g(ii) Deferred tax expense/(income) recognised in the income statement	
At 31 December 2006	

c. Deferred tax assets not recognised:

HKAS 12.81e

The company has not recognised deferred tax assets in respect of deductible temporary differences of [ ] (2005: [ ]) and unused tax losses of [ ] (2005: [ ]) and there is expiry date for these items.

32 Other categories, say tax losses and provision for product warranties not deductible, may be further provided.

27. Share capital

		2006		2005	
10-Sch.2		No. of shares	HK$	No. of shares	HK$
HKAS 1.76a HKAS 1.76a(i) & (iii)	*Authorised:* Ordinary shares of $1 each				
HKAS 1.97c & 1.76a(ii)&(iv)	*Issued and fully paid:* Ordinary shares of $1 each, at 1 January and 31 December				

HKAS 32.60a

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company. All ordinary shares rank equally with regard to the company's residual assets.

28. Reserves

		Note	Fair value reserves HK$	Retained earnings HK$	Total reserves HK$
HKAS 1.97c HKAS 1.46e					
HKAS 1.97b & HKAS 8.28f(i)	**Balance at 1 January 2005** as previously reported				
HKAS 1.96d	Changes in accounting policy	4			
	Balance at 1 January 2005 as restated				
HKAS 1.96b	Fair value changes on other securities				
HKAS 1.96a	Profit for the year				
HKAS 1.97a	Dividends	12			
HKAS 1.97b	**Balance at 31 December 2005**				
HKAS 1.97b & HKAS 8.28f(i)	**Balance at 1 January 2006** as previously reported				
HKAS 1.96d	Changes in accounting policy:	4			
	Balance at 1 January 2006 as restated				
HKAS 1.96b 32.94h(ii)	Fair value changes on available-for-sale financial assets taken to equity	18			
	Transfer upon sale of available-for-sale financial assets	18			
HKAS 1.96a	Profit for the year				
HKAS 1.97a	Dividends	12			
HKAS 1.97b	**Balance at 31 December 2006**				

HKAS 1.76b

The fair value reserves represent the cumulative gain and loss on the fair value changes of available-for-sale financial assets held at the balance sheet date that is recognised directly in equity in accordance with the accounting policy as set out in note 3f.

CO 161B

29. Loans and guarantees to officers[33]

CO 161B

Particulars of loans and guarantee to the officers, all being the directors, disclosed pursuant to section 161B of the Companies Ordinance are as follows:

CO 161B(1)

a. Loans to officers

Name of officer	Balance at 31.12.2006	Balance at 31.12.2005 and 1.1.2006	Balance at 1.1.2005	Maximum balance outstanding during 2006	Maximum balance outstanding during 2005
	HK$	HK$	HK$	HK$	HK$
Ms. TT Tong					
Mr. Tony Ton					

The loans to officers are unsecured, non-interest bearing and repayable on demand.

CO 161B(3) & (4)

b. Guarantees to officers

		Maximum liability under the guarantee		
Name of officer	Particulars of guarantee	At 31.12.2006	At 1.1.2006 and 31.12.2005	At 1.1.2005
		HK$	HK$	HK$
Ms. Bonnie Hung	Guarantee given to a bank for a property mortgage of HK$[ ] expiring on [ ]			
Mr. Tony Ton	Guarantee given to a bank for a general banking facilities amounting to HK$[ ] expiring on [ ]			

Up to 31 December 2006, the company had not paid or incurred any liability for the purpose of fulfilling the guarantee or discharging the security. The directors consider that it is remote for the company to pay and incur any liability on the guarantees given to the officers.

[33] The Companies (Amendment) Ordinance 2003 extended the disclosure requirements under section 161B to relevant transactions, including loans, quasi-loans and credit transactions, and guarantee.

30. Commitments

10-Sch.12(6) & HKAS 16.74c

a. At 31 December 2006, the capital commitments outstanding not provided for in the financial statements were as follows:

	2006	2005
	HK$	HK$
Contracted for		
Authorised but not contracted for		

HKAS 17.35a

b. At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases for each of the following periods were:

	2006		2005	
	Properties	Other assets	Properties	Other assets
	HK$	HK$	HK$	HK$
Not later than one year				
Later than one year and not later than five years				
Later than five years				

HKAS 39.52
HKAS 32.56

31. Financial risk management[34]

The company is exposed to various kinds of risks in its operation and financial instruments. The company's risk management objectives and policies mainly focus on minimizing the potential adverse effects of these risks on the company by closely monitoring the individual exposure as follows:

a. Market risk

i. Currency risk

The company purchases and sells in various foreign currencies, mainly US dollars, Euro, Australia dollars and Renminbi, that exposes it to foreign currency risk arising from such purchases and sales and the resulting receivables and the payables. The company closely and continuously monitors the exposure as follows:

- Since HK dollars is pegged to US dollars, there is no significant exposure expected on US dollars transactions and balances.

- Even HK dollars is not pegged to Renminbi, the historical exchange rate fluctuation on Renminbi is insignificant. Thus, there is no significant exposure expected on Renminbi transactions and balances. In case of any significant fluctuation expected, the Renminbi transactions and balances would also be monitored and controlled in the same manner as other foreign currencies.

- In respect of purchases and payables, the company controls its volume of purchase orders to a tolerable level and avoids concentrating the purchases in a single foreign currency by diversifying such foreign currency risk exposure.

- In respect of sales and receivables, the company sets a prudent credit limit to individual customers who transact with it in other foreign currencies. The directors' approval is required on the exposure to an individual customer or transaction that exceeds the limit.

[34] The sample financial risk management in this set of statements assumes that the company, as most small to medium sized companies, has not used any derivative in hedging or managing the risk exposure. Of course, if derivatives or hedging were used, the note would be revised substantially.

31. Financial risk management (continued)

HKAS 32.71

ii. Fair value interest rate risk

The company's exposure on fair value interest rate risk mainly arises from its fixed deposits with banks and investments in fixed rate debt securities, which are classified as held-to-maturity investments, available-for-sale financial assets, and cash and cash equivalents.[35]

- Since the fixed deposits with banks usually mature within 3 months, the exposure is considered not significant.

- The company only invests surplus funds in fixed rate debt securities and such investments are not normally material. In consequence, no material exposure on fair value interest rate risk is expected. Even that, the company closely monitors the fair value fluctuation of the investments and disposes of them in case of significant increase in interest rate is foreseen.[36]

iii. Price risk

The investments in equity securities classified as available-for-sale financial assets and trading securities expose the company to price risk. As the company's policy is only to invest on such investments by its surplus funds, the exposure may not have significant impact on the company's financial position.

b. *Credit risk*

HKAS 32.76

The company has no concentrations of credit risk and its credit risk is mainly attributable to trade and other receivables. It sets credit limit on each individual customer and prior approval is required for any transaction exceeding that limit. The customer with sound payment history would accumulate a higher credit limit. In addition, the overseas customers would normally be required to transact with the company by letter of credit in order to minimise the company's credit risk exposure.

c. *Liquidity risk*

The company manages its funds conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Various banking facilities and credit lines have also been arranged with different banks in order to fund any emergency liquidity requirements.

d. *Cash flow interest rate risk*

The company's exposure to cash flow interest rate risk is mainly on its interest-bearing borrowings with the banks. It is a common practice in Hong Kong to have floating rate borrowings with the banks.

In order to manage the cash flow interest rate risk, the company will repay the corresponding borrowings when it has surplus funds.

HKAS 32.86

e. *Fair value*

Except for held-to-maturity investments, all other financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2006. The fair value of held-to-maturity investments is set out in note 18.

[35] Technically, trade and other receivables also expose to fair value interest rate risk. However, if the receivable are not material or have no long maturity, the exposure may not be significant. If this assumption is not valid, additional disclosure may be required.

[36] Since the note assumes the exposure to fair value interest rate risk is not significant, the disclosure under HKAS 32.67 is not set out. If the balances or exposure are significant, the disclosure under HKAS 32.67 may be required.

HKAS 24.17

32. Related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the company had the following material related party transactions during the year:

	2006	2005
	HK$	HK$
Management fee paid to fellow subsidiaries		
Purchases from jointly controlled entities		
Rental paid to an immediate holding company		

All the transactions with related party were negotiated at arm-length basis and in accordance with common commercial terms in the same manner as other external customers and suppliers.

33. Contingent liabilities

As at 31 December 2006, the company has given a single unlimited guarantee to a bank in respect of a banking facilities granted to its associate, Nelson (Asso.) Limited for a term of one year up to 30 September 2007. The associate utilised the facilities up to HK$7,500,000 (2005: HK$5,300,000) as at 31 December 2006. The directors are of the opinion that the fair value of the guarantee cannot be reliably measured as its transaction price is zero and such guarantee is rarely available in the market.[37]

34. Comparative figures

HKAS 1.38

Certain comparative figures have been restated or re-classified as a result of the changes in accounting policies and the details of the changes in accounting policies are set out in note 4.

35. Parent and ultimate holding company

CO 129A
HKAS 1.126c
HKAS 24.12

The directors consider the company's immediate parent and ultimate holding company to be Sample International Manufacturing Company Limited and Sample Global Inc. respectively, both of which are incorporated in Hong Kong and have not produced financial statements available for public use.

[37] Different case should have different particular circumstances and different disclosure should be required. Note 33 should also be considered and amended with note 3q and note 4 together.

HKAS 8.30

36. Hong Kong Financial Reporting Standards issued but not yet effective for the year

HKFRSs that have been issued but are not yet effective for the year include the following HKFRSs which may be relevant to the company's operations and financial statements:

	Effective for annual periods beginning on or after
HKFRS 7 *Financial instruments: disclosures*	1 January 2007
Amendments to HKAS 1 *Presentation of financial statements: capital disclosures*	1 January 2007

Initial assessment has indicated that the adoption of these HKFRSs would not have a significant impact on the company's financial statements in the year of initial application. The company will be continuing with the assessment of the impact of these HKFRSs and other significant changes may be identified as a result.

Reference:
1. Deloitte, *Hong Kong Financial Reporting Standards Model Financial Standards and Disclosure Checklist 2006*, 2007.
2. Ernst & Young, *Good Group (International) Limited International GAAP Illustrative Financial Statements*, 2006.
3. HKSAR Government, *The Companies Ordinance*, 2005.
4. Hong Kong Exchange and Clearing Limited (HKEx), *Annual Report of 2004 to 2006*, 2005 to 2007.
5. IASB, *International Financial Reporting Standards 2007*, 2007.
6. HKICPA, *Hong Kong Financial Reporting Standards*, 2007.
7. KPMG, *Illustrative Financial Statements under Hong Kong Financial Reporting Standards December 2006, 2006*
8. PricewaterCoopers, *International Financial Reporting Standards Illustrative Corporate Consolidated Financial Statements – 2006*, 2006.
9. Various annual reports downloaded from the website of HKEx.