## **Appendix 2**

## **Illustrative Company-level Financial Statements Prepared in Accordance with the SME-FRS**

### This appendix is illustrative only and does not form part of the SME-FRS. The purpose of this appendix is to illustrate the application of the SME-FRS and to assist in clarifying its meaning. It is prepared in compliance with the SME-FRF.

### It should be noted that:

1. *Under SME-FRS 1.26, an analysis of expenses using a classification based on either the nature of expenses or their function within the entity should be presented either on the face of the income statement or in the notes to the income statement. In this illustration the group has presented an analysis by function on the face of the income statements with further details on the nature of expenses in the notes.*
2. *Under SME-FRS 1.28 dividends can be presented either on the face of the income statement or in the notes. In this illustration the company has presented the information in the notes.*
3. *Under SME-FRS 1.29, changes in equity can be presented either in the notes to the financial statements or as a separate component of the financial statements. In this illustration the company has presented the information in the notes.*
4. *Under SME-FRS 13.1A an entity can choose an accounting policy of expensing all borrowing costs or capitalising those that meet certain criteria. In this illustration the group has chosen to expense all borrowing costs.*
5. *In accordance with section 1.1 of the SME-FRS, an entity which prepares and presents its financial statements in accordance with the SME-FRS is not required to include a cash flow statement in those financial statements. However, if an entity voluntarily includes a cash flow statement in those financial statements, then this cash flow statement should be prepared in accordance with the requirements of section 22 of the SME-FRS. In this illustration the entity has chosen to include a cash flow statement and has made the following additional choices in this regard:*
   * 1. *Under SME-FRS 22.7 an entity can chose to present cash flows from operating activities using either the direct or the indirect method. In this illustration the entity has chosen the indirect method.*
     2. *Under SME-FRS 22.16 in the cash flow statement an entity can chose where to present interest paid and interest and dividends received. In this illustration the company has chosen to present interest paid as financing cash flows and interest and dividends received as investing cash flows.*

|  |  |  |  |
| --- | --- | --- | --- |
| **SME Limited**  **INCOME STATEMENT** |  |  |  |
| for the year ended 31 December 20X5 |  |  |  |
|  |  |  |  |
|  | **20X5** |  | **20X4** |
| **Note** | **HK$** |  | **HK$** |
|  |  |  |  |
| Revenue 2 | 29,054,180 |  | 24,834,610 |
| Cost of sales | (19,114,120) |  | (16,490,300) |
|  | 9,940,060 |  | 8,344,310 |
|  |  |  |  |
| Other income | 23,680 |  | 23,060 |
| Distribution costs | (702,200) |  | (627,200) |
| Administrative expenses | (7,240,955) |  | (5,901,420) |
| Other operating expenses | (423,050) |  | (400,120) |
| Finance costs 3 | (53,530) |  | (63,130) |
|  |  |  |  |
| Profit before tax 4 | 1,544,005 |  | 1,375,500 |
| Income tax expense 6 | (225,050) |  | (225,430) |
|  |  |  |  |
| Profit for the year | 1,318,955 |  | 1,150,070 |
|  |  |  |  |

The accompanying Accounting Policies and Explanatory Notes form an integral part of, and should be read in conjunction with, these financial statements.

**SME Limited**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **STATEMENT OF FINANCIAL POSITION** | | | |  |  |
| as at 31 December 20X5 |  |  |  |  |  |
|  |  |  | **20X5** |  | **20X4** |
|  | Note |  | **HK$** |  | **HK$** |
| **Non-current assets** |  |  |  |  |  |
| Property, plant and equipment | 7 |  | 5,270,300 |  | 4,104,010 |
| Intangible assets | 8 |  | 2,100,000 |  | 2,400,000 |
| Long-term investments | 9 |  | 430,000 |  | 400,000 |
|  |  |  | 7,800,300 |  | 6,904,010 |
|  |  |  |  |  |  |
| Current assets |  |  |  |  |  |
| Inventories | 10 |  | 1,938,680 |  | 1,964,590 |
| Prepayments |  |  | 147,040 |  | 261,910 |
| Trade and other receivables |  |  | 1,115,150 |  | 1,113,535 |
| Current investment | 11 |  | 200,000 |  | - |
| Cash and bank balances | 12 |  | 1,106,800 |  | 1,083,500 |
|  |  |  | 4,507,670 |  | 4,423,535 |
|  |  |  |  |  |  |
| Less: **Current liabilities** |  |  |  |  |  |
| Income tax payable |  |  | (225,050) |  | (225,430) |
| Bank overdraft – secured | 13 |  | (318,840) |  | (533,520) |
| Bank loan due within 12 months – secured | 13 |  | (300,000) |  | (300,000) |
| Obligations under finance leases | 14 |  | (117,630) |  | (62,805) |
| Trade payables |  |  | (1,892,530) |  | (1,702,250) |
| Due to related parties | 18 |  | (360,300) |  | (343,900) |
|  |  |  | (3,214,350) |  | (3,167,905) |
|  |  |  |  |  |  |
| Net Current Assets |  |  | 1,293,320 |  | 1,255,630 |
|  |  |  |  |  |  |
| **Non-current liabilities** |  |  |  |  |  |
| Bank loan – secured | 13 |  | (100,000) |  | (400,000) |
| Obligations under finance leases | 14 |  | (89,770) |  | (64,745) |
|  |  |  | (189,770) |  | (464,745) |
|  |  |  |  |  |  |
| Net Assets |  |  | 8,903,850 |  | 7,694,895 |
|  |  |  |  |  |  |
| **Equity** |  |  |  |  |  |
| Share capital |  |  |  |  |  |
| Issued & fully paid: 100,000 ordinary shares | 15 |  | 100,000 |  | 100,000 |
| Retained earnings | 15 |  | 8,803,850 |  | 7,594,895 |
|  |  |  |  |  |  |
|  |  |  | 8,903,850 |  | 7,694,895 |
|  |  |  |  |  |  |

Approved on behalf of the Board by: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Director Director

The accompanying Accounting Policies and Explanatory Notes form an integral part of, and should be read in conjunction with, these financial statements.

**SME Limited**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **STATEMENT OF CASH FLOWS[[1]](#footnote-1)** | | | |  |  |  |  |
| for the year ended 31 December 20X5 | | | |  |  |  |  |
|  |  | | |  | **20X5** |  | **20X4** |
|  |  | | | **Note** | **HK$** |  | **HK$** |
|  |  | | |  |  |  |  |
| **Profit before taxation** | | | |  | 1,544,005 |  | 1,375,500 |
|  |  | | |  |  |  |  |
| Adjustments for non-operating and non-cash items: | | | |  |  |  |  |
|  | Interest expense | | |  | 53,530 |  | 63,130 |
|  | Interest income | | |  | (6,200) |  | (5,600) |
|  | Depreciation and amortisation | | |  | 865,770 |  | 622,820 |
|  | Gain on disposal of fixed assets | | |  | (23,680) |  | (23,060) |
|  |  | | |  |  |  |  |
| Changes in working capital: | | | |  |  |  |  |
|  | Decrease / (Increase) in inventories | | |  | 25,910 |  | (40,078) |
|  | (Increase) / decrease in trade and other receivables | | |  | (1,615) |  | 24,118 |
|  | Decrease/ (increase) in deposits and prepayment | | |  | 114,870 |  | (156,910) |
|  | Increase/ (decrease) in due to related parties | | |  | 16,400 |  | (216,900) |
|  | Increase/ (decrease) in trade and other payables | | |  | 190,280 |  | (347,880) |
|  |  | | |  |  |  |  |
| **Cash generated from operations** | | | |  | 2,779,270 |  | 1,295,140 |
|  | |  | |  |  |  |  |
| Hong Kong profits tax paid | | | |  | (225,430) |  | (221,500) |
|  | |  | |  |  |  |  |
| **Net cash generated from operating activities** | | | |  | 2,553,840 |  | 1,073,640 |
|  | | |  |  |  |  |  |
| **Investing activities** | | | |  |  |  |  |
|  | | |  |  |  |  |  |
| Payment for purchase of property, plant and equipment | | | |  | (2,381,530) |  | (1,217,670) |
| Proceeds from disposals of property, plant and equipment | | | |  | 673,150 |  | 623,060 |
| Payment for purchase of investments | | | |  | (230,000) |  | - |
| Interest received | | | |  | 6,200 |  | 5,600 |
|  | | |  |  |  |  |  |
| **Net cash used in investing activities** | | | |  | (1,932,180) |  | (589,010) |
|  | | |  |  |  |  |  |
|  | | |  |  |  |  |  |
|  | | | |  |  |  | *...continued* |
|  | | | |  |  |  |  |
|  | | | |  |  |  |  |
|  | | | |  |  |  |  |
|  | | | |  |  |  |  |
| *...continued* | | | |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **SME LIMITED** | | |  |  |  |  |
| **STATEMENT OF CASH FLOWS** | | |  |  |  |  |
| for the year ended 31 December 20X5 | | |  |  |  |  |
|  |  | |  |  |  |  |
|  |  | |  | **20X5** |  | **20X4** |
|  |  | | **Note** | **HK$** |  | **HK$** |
|  |  | |  |  |  |  |
| **Financing activities** | | |  |  |  |  |
|  | |  |  |  |  |  |
| Dividend paid | |  |  | (110,000) |  | - |
| Repayment of bank loans | | |  | (300,000) |  | (600,000) |
| Increase/ (decrease) in finance lease payable | | |  | 79,850 |  | (61,300) |
| Interest paid |  | |  | (53,530) |  | (63,130) |
|  |  | |  |  |  |  |
| **Net cash used in financing activities** | | |  | (383,680) |  | (724,430) |
|  |  | |  |  |  |  |
| **Net increase/ (decrease) in cash and cash equivalents** | | |  | 237,980 |  | (239,800) |
|  |  | |  |  |  |  |
| **Cash and cash equivalents at 1 January** | | |  | 549,980 |  | 789,780 |
|  |  | |  |  |  |  |
| **Cash and cash equivalents at 31 December** | | | 12 | 787,960 |  | 549,980 |
|  |  | |  |  |  |  |
|  |  | |  |  |  |  |

The accompanying Accounting Policies and Explanatory Notes form an integral part of, and should be read in conjunction with, these financial statements.

**SME LIMITED**

**Accounting Policies and Explanatory Notes to the Financial Statements**

for the year ended 31 December 20X5

**Reporting entity**

SME Limited is a company incorporated in Hong Kong with limited liability. The company’s registered office is located at 9/F, 28 Nowhere Street, Kowloon, Hong Kong. The principal activity of the company is trading of toys. The company has adopted a trade name “Fun Times” for its business.

**1. Basis of preparation and accounting policies**

The company qualifies for the reporting exemption as a small private company under section 359(1)(a) of the Hong Kong Companies Ordinance (Cap. 622) and is therefore entitled to prepare and present its financial statements in accordance with the Small and Medium-sized Entity Financial Reporting Standard (SME-FRS) issued by the Hong Kong Institute of Certified Public Accountants.

These financial statements comply with the SME-FRS and have been prepared under the accrual basis of accounting and on the basis that the company is a going concern.

The measurement base adopted is the historical cost convention.

The following are the specific accounting policies that are necessary for a proper understanding of the financial statements:

(a) Revenue

Revenue is recognised when it is probable that the economic benefits will flow to the company and when the revenue can be measured reliably, on the following bases:

(i) sale of goods is recognised when the goods are delivered and the risks and rewards of ownership have passed to the customer;

(ii) rental income is recognised on a time proportion basis over the lease terms;

(iii) interest income is recognised on a time proportion basis taking into account the principal outstanding and the interest applicable; and

(iv) dividend income is recognised when the shareholder’s right to receive payment is established.

(b) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

(c) Foreign exchange

The reporting currency of the company is Hong Kong Dollars, which is the currency of the primary economic environment in which the company operates.

Foreign currency transactions are converted at the exchange rate applicable at the transaction date. Foreign currency monetary items are translated into Hong Kong Dollars using exchange rates applicable at the end of the reporting period. Gains and losses on foreign exchange are recognised in the income statement.

(d) Taxation

Income tax expense represents current tax expense. The income tax payable represents the amounts expected to be paid to the taxation authority, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is not provided.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

The depreciable amount of an item of property, plant and equipment is allocated on a systematic basis over its estimated useful life using the straight-line method. The principal annual rates used for depreciation are as follows:

Leasehold land Over the lease terms

Buildings 2%

Furniture, fixtures and equipment 10%-20%

(f) Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses and are amortised on a systematic basis over their estimated useful lives using the straight-line method.

(g) Investments in securities

Current investments are stated at the lower of cost and net realisable value. Long-term investments are stated at cost less accumulated impairment losses.

(h) Impairment of assets

An assessment is made at the end of each reporting period to determine whether there is any indication of impairment or reversal of previous impairment, including items of property, plant and equipment, intangible assets and long-term investments. In the event that an asset’s carrying amount exceeds its recoverable amount, the carrying amount is reduced to recoverable amount and an impairment loss is recognised in the income statement. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of amortisation or depreciation), had no impairment losses been recognised for the asset in prior years.

(i) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the company are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where substantially all the risks and rewards of ownership of assets are not transferred to the lessee are accounted for as operating leases. Annual rents applicable to such operating leases are charged to the income statement on a straight-line basis over the lease term.

(j) Inventories

Inventories are stated at the lower of cost (using a first-in-first-out basis) and net realisable value. In arriving at net realisable value an allowance has been made for deterioration and obsolescence.

(k) Trade and other receivables

Trade and other receivables are stated at estimated realisable value after each debt has been considered individually. Where the payment of a debt becomes doubtful a provision is made and charged to the income statement.

(l) Cash and cash equivalents[[2]](#footnote-2)

Cash and cash equivalents comprise cash at bank and on hand and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the company’s cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

**2. Revenue**

An analysis of the company’s revenue is as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **20X5** |  | **20X4** |
|  |  | **HK$** |  | **HK$** |
|  |  |  |  |  |
| Sale of goods |  | 28,957,860 |  | 24,753,540 |
| Rental income |  | 78,000 |  | 68,000 |
| Interest income |  | 6,200 |  | 5,600 |
| Dividend income |  | 12,120 |  | 7,470 |
|  |  |  |  |  |
|  |  | 29,054,180 |  | 24,834,610 |
|  |  |  |  |  |
|  |  |  |  |  |

**3. Finance costs**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **20X5** |  | **20X4** |
|  |  | **HK$** |  | **HK$** |
|  |  |  |  |  |
| Interest on bank loan and overdraft |  | 41,030 |  | 55,100 |
| Interest on finance leases |  | 12,500 |  | 8,030 |
|  |  |  |  |  |
|  |  | 53,530 |  | 63,130 |
|  |  |  |  |  |
|  |  |  |  |  |

**4. Profit before tax**

Profit before tax is arrived at:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **20X5** |  | **20X4** |
|  | **Note** | **HK$** |  | **HK$** |
|  |  |  |  |  |
| After crediting the following item: |  |  |  |  |
| Gain on disposal of property, plant and equipment |  | 23,680 |  | 23,060 |
|  |  |  |  |  |
| And after charging the following items: |  |  |  |  |
| Depreciation | 7 | (565,770) |  | (322,820) |
| Amortisation\* | 8 | (300,000) |  | (300,000) |
| Key management personnel’s remuneration |  | (762,850) |  | (470,000) |
| Other staff costs |  | (1,522,570) |  | (1,968,920) |
| Exchange losses, net |  | (16,250) |  | (19,920) |
| Provision for inventories |  | (106,000) |  | (86,700) |
| Provision for bad and doubtful debts |  | (98,800) |  | (65,600) |

\* The amortisation of acquired brand name for the year is included in “Other operating expenses” on the face of the income statement.

**5. Directors’ remuneration**

Directors’ remuneration disclosed pursuant to section 383(1) of the Companies Ordinance is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20X5** |  | **20X4** |
|  | **HK$** |  | **HK$** |
|  |  |  |  |
| Fees | 350,000 |  | 350,000 |
| Other emoluments | 120,000 |  | 120,000 |
|  |  |  |  |
|  | 470,000 |  | 470,000 |

**6. Income tax expense**

Hong Kong profits tax has been provided at the rate of 16.5% (20X4: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20X5** |  | **20X4** |
|  | **HK$** |  | **HK$** |
|  |  |  |  |
| Tax charge for the year | 235,250 |  | 225,430 |
| Overprovision in prior years | (10,200) |  | - |
|  |  |  |  |
|  | 225,050 |  | 225,430 |

**7. Property, plant and equipment**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **Leasehold**  **land and  buildings** |  | **Furniture, fixtures and equipment** |  | **Total** |
|  | **HK$** |  | **HK$** |  | **HK$** |
| Cost: |  |  |  |  |  |
| At 1 January 20X5 | 5,040,000 |  | 2,428,180 |  | 7,468,180 |
| Additions | - |  | 2,381,530 |  | 2,381,530 |
| Disposals | - |  | (1,527,470) |  | (1,527,470) |
|  |  |  |  |  |  |
| At 31 December 20X5 | 5,040,000 |  | 3,282,240 |  | 8,322,240 |
|  |  |  |  |  |  |
| Accumulated depreciation and impairment losses: |  |  |  |  |  |
| At 1 January 20X5 | 2,160,000 |  | 1,204,170 |  | 3,364,170 |
| Depreciation for the year | 80,000 |  | 485,770 |  | 565,770 |
| Written back on disposal | - |  | (878,000) |  | (878,000) |
|  |  |  |  |  |  |
| At 31 December 20X5 | 2,240,000 |  | 811,940 |  | 3,051,940 |
|  |  |  |  |  |  |
| Net carrying amount: |  |  |  |  |  |
| At 31 December 20X5 | 2,800,000 |  | 2,470,300 |  | 5,270,300 |
|  |  |  |  |  |  |
| At 31 December 20X4 | 2,880,000 |  | 1,224,010 |  | 4,104,010 |

The carrying amount of equipment held under finance leases at 31 December 20X5 was HK$205,500 (20X4: HK$108,000).

**8. Intangible assets**

|  |  |
| --- | --- |
|  |  |
|  | **HK$** |
| Acquired brand name |  |
| Cost: |  |
| At 1 January and 31 December 20X5 | 3,000,000 |
|  |  |
| Accumulated amortisation: |  |
| At 1 January 20X5 | 600,000 |
| Amortisation for the year | 300,000 |
|  |  |
| At 31 December 20X5 | 900,000 |
|  |  |
| Net carrying amount: |  |
| At 31 December 20X5 | 2,100,000 |
|  |  |
| At 31 December 20X4 | 2,400,000 |
|  |  |

The acquired brand name is being amortised over 10 years.

**9. Long-term investments**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20X5** |  | **20X4** |
|  | **HK$** |  | **HK$** |
|  |  |  |  |
| Listed equity securities, at cost | 430,000 |  | 400,000 |
|  |  |  |  |

The market value of listed equity securities as at 31 December 20X5 was HK$525,190 (20X4: HK$552,740).

**10. Inventories**

Inventories comprise entirely of stock in trade.  
 **11. Current Investment**

Current investment represents an investment in an equity linked note with a term of six months and its return is dependent on the performance of a single security.

**12. Cash and cash equivalents**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20X5** |  | **20X4** |
|  | **HK$** |  | **HK$** |
| Cash at bank and in hand | 1,106,800 |  | 1,083,500 |
| Bank overdrafts (see Note 13) | (318,840) |  | (533,520) |
|  |  |  |  |
| Cash and cash equivalents in the cash flow statement[[3]](#footnote-3) | 787,960 |  | 549,980 |
|  |  |  |  |

**13. Secured bank loan and overdraft**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20X5** |  | **20X4** |
| Bank loan |  |  |  |
| HK$900,000 3 year loan  – fully repayable in September 20X7 | 400,000 |  | 700,000 |
|  |  |  |  |
| Less: Current Portion | (300,000) |  | (300,000) |
|  |  |  |  |
| Non-current Portion | 100,000 |  | 400,000 |
|  |  |  |  |

The company’s bank loan and overdraft are secured by a floating charge over the company’s leasehold land and building with aggregate carrying value as at 31 December 20X5 of HK$2,800,000 (20X4: HK$2,880,000).

**14. Obligations under finance leases**

The present value of lease payments under finance leases are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20X5** |  | **20X4** |
|  | **HK$** |  | **HK$** |
|  |  |  |  |
| Not later than one year | 117,630 |  | 62,805 |
| Later than one year | 89,770 |  | 64,745 |
|  |  |  |  |
|  | 207,400 |  | 127,550 |
|  |  |  |  |

**15. Changes in equity**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
|  | Share |  | **Retained** |  | **Total** |
|  | **capital** |  | **earnings** |  |  |
|  | HK$ |  | **HK$** |  | **HK$** |
|  |  |  |  |  |  |
| Balance as at 31 December 20X4 | 100,000 |  | 7,594,895 |  | 7,694,895 |
| Profit for the year | – |  | 1,318,955 |  | 1,318,955 |
| Dividend paid  (Interim dividend of HK$1.1 per share) | – |  | (110,000) |  | (110,000) |
|  |  |  |  |  |  |
| Balance as at 31 December 20X5 | 100,000 |  | 8,803,850 |  | 8,903,850 |
|  |  |  |  |  |  |

**16. Commitments under operating leases**

The company had the following total future minimum lease payments payable under non-cancellable operating leases:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20X5** |  | **20X4** |
|  | **HK$** |  | **HK$** |
|  |  |  |  |
| Not later than one year | 573,060 |  | 573,060 |
| Later than one year | 573,060 |  | 1,146,120 |
|  |  |  |  |
|  | 1,146,120 |  | 1,719,180 |

**17. Contingent liabilities**

The company had the following contingent liabilities not provided for in the financial statements:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20X5** |  | **20X4** |
|  | **HK$** |  | **HK$** |
|  |  |  |  |
| Guarantees given to banks in connection with facilities granted to related companies | 197,120 |  | – |
|  |  |  |  |
|  |  |  |  |

Mr. X, a shareholder of the company, controls both the company and the related companies.

**18. Other related party transactions**

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company had the following transactions with related parties:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **20X5** |  | **20X4** |
|  | **HK$** |  | **HK$** |
|  |  |  |  |
| Goods sold to related companies | 393,500 |  | 372,840 |
| Goods purchased from related companies | 1,519,400 |  | 2,505,920 |
|  |  |  |  |

Mr. X, a shareholder of the company, controls both the company and the related companies.

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

**19. Approval of financial statements**

These financial statements were authorised for issue by the company’s Board of Directors on 15 March 20X6.

1. In accordance with section 1.1 of the SME-FRS, an entity which prepares and presents its financial statements in accordance with the SME-FRS is not required to include a cash flow statement in those financial statements. However, if an entity voluntarily includes a cash flow statement in those financial statements, then this cash flow statement should be prepared in accordance with the requirements of section 22 of the SME-FRS. [↑](#footnote-ref-1)
2. In accordance with section 1.1 of the SME-FRS, an entity which prepares and presents its financial statements in accordance with the SME-FRS is not required to include a cash flow statement in those financial statements. However, if an entity voluntarily includes a cash flow statement in those financial statements, then this cash flow statement should be prepared in accordance with the requirements of section 22 of the SME-FRS. Consequently, this policy note is only appropriate if an entity chooses to present a cash flow statement. [↑](#footnote-ref-2)
3. In accordance with section 1.1 of the SME-FRS, an entity which prepares and presents its financial statements in accordance with the SME-FRS is not required to include a cash flow statement in those financial statements. However, if an entity voluntarily includes a cash flow statement in those financial statements, then this cash flow statement should be prepared in accordance with the requirements of section 22 of the SME-FRS. Consequently, this reconciliation is only required to be disclosed if an entity chooses to present a cash flow statement. [↑](#footnote-ref-3)