

## Appendix 3

### Illustrative Consolidated 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:*

- (a) 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.*
- (b) 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.*
- (c) 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 group has presented the information in the notes.*
- (d) 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.*
- (e) Under SME-FRS 20.3 and 21.4, for the purposes of the consolidated financial statements the entity can make an accounting policy choice to carry investments in associates and joint ventures using either the cost method or the equity method. In this illustration the group has chosen the equity method.*
- (f) 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:
  - (i) 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 group has chosen the indirect method.*
  - (ii) 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 group has chosen to present interest paid as financing cash flows and interest and dividends received as investing cash flows.**

**SME GROUP**  
**CONSOLIDATED INCOME STATEMENT**  
for the year ended 31 December 20X5

	Note	20X5 HK\$	20X4 HK\$
Revenue	2	29,054,180	24,834,610
Cost of sales		<u>(19,114,120)</u>	<u>(16,490,300)</u>
		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)
Share of profit of associate		30,000	50,000
Share of profit of joint venture		60,000	80,000
Finance costs	3	<u>(53,530)</u>	<u>(63,130)</u>
Profit before tax	4	1,634,005	1,505,500
Income tax expense	6	<u>(225,050)</u>	<u>(225,430)</u>
Profit for the year		<u><u>1,408,955</u></u>	<u><u>1,280,070</u></u>
Profit attributable to the equity shareholders		1,305,220	1,173,770
Profit attributable to non-controlling interest		<u>103,735</u>	<u>106,300</u>
		<u><u>1,408,955</u></u>	<u><u>1,280,070</u></u>

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

**SME GROUP**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
as at 31 December 20X5

	Note	20X5 HK\$	20X4 HK\$
<b>Non-current assets</b>			
Property, plant and equipment	7	5,270,300	4,104,010
Intangible assets (including goodwill)	8	2,310,000	2,500,000
Investment in associate	9	420,000	400,000
Investment in joint venture	10	540,000	500,000
Other long-term investments	11	310,000	-
		<u>8,850,300</u>	<u>7,504,010</u>
<b>Current assets</b>			
Inventories	12	1,796,025	1,964,590
Deposits and prepayments		147,040	261,910
Trade and other receivables		1,005,150	1,113,535
Cash and bank balances	13	1,096,800	1,083,500
		<u>4,045,015</u>	<u>4,423,535</u>
<b>Current liabilities</b>			
Income tax payable		(225,050)	(225,430)
Bank overdraft – secured	14	(388,840)	(533,520)
Bank loan – secured	14	(900,000)	(900,000)
Obligations under finance leases	15	(64,745)	(62,805)
Trade payables		(2,222,830)	(2,046,150)
		<u>(3,801,465)</u>	<u>(3,767,905)</u>
Net Current Assets		<u>243,550</u>	<u>655,630</u>
<b>Non-current liabilities</b>			
Bank loan – secured	14	(100,000)	(400,000)
Obligations under finance leases	15	-	(64,745)
		<u>(100,000)</u>	<u>(464,745)</u>
<b>Net Assets</b>		<u>8,993,850</u>	<u>7,694,895</u>
<b>Equity</b>			
Share capital: issued & fully paid			
100,000 ordinary shares	16	100,000	100,000
Retained earnings	16	8,422,115	7,226,895
Total equity attributable to the shareholders of the company		<u>8,522,115</u>	<u>7,326,895</u>
Non-controlling interest		<u>471,735</u>	<u>368,000</u>
<b>Total equity</b>		<u>8,993,850</u>	<u>7,694,895</u>

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 GROUP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS<sup>1</sup>**  
for the year ended 31 December 20X5

	Note	20X5 HK\$	20X4 HK\$
<b>Profit before taxation</b>		1,634,005	1,505,500
Adjustments for non-operating or non-cash items:			
Interest expense		53,530	63,130
Interest income		(6,200)	(5,600)
Dividend income from long term investment		(12,120)	(7,470)
Depreciation and amortisation		905,770	647,820
Gain on disposal of fixed assets		(23,680)	(23,060)
Share of profit of associate		(30,000)	(50,000)
Share of profit of joint venture		(60,000)	(80,000)
Exchange losses on cash balances		5,505	3,920
Changes in working capital:			
Decrease/ (increase) in inventories		168,565	(40,078)
Decrease in trade and other receivables		108,385	24,118
Decrease/ (increase) in deposits and prepayment		114,870	(156,910)
Increase in trade and other payables		176,680	11,820
<b>Cash generated from operations</b>		<u>3,035,310</u>	<u>1,893,190</u>
Hong Kong profits tax paid		<u>(225,430)</u>	<u>(237,300)</u>
<b>Net cash generated from operating activities</b>		<u>2,809,880</u>	<u>1,655,890</u>
<b>Investing activities</b>			
Payment for purchase of property, plant and equipment		(2,031,530)	(1,217,670)
Proceeds from disposals of property, plant and equipment		673,150	623,060
Payment for purchase of investments		(310,000)	-
Dividend received from the associate		10,000	20,000
Dividend received from the joint venture		20,000	30,000
Dividend received from long term investment		12,120	7,470
Interest received		6,200	5,600
Net cash outflow for acquisition of a subsidiary	17	<u>(500,000)</u>	<u>-</u>
<b>Net cash used in investing activities</b>		<u>(2,120,060)</u>	<u>(531,540)</u>

continued...

<sup>1</sup> 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.

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**SME GROUP**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
for the year ended 31 December 20X5

	Note	20X5 HK\$	20X4 HK\$
<b>Financing activities</b>			
Dividend paid		(110,000)	-
Proceeds from new bank loans		600,000	-
Repayment of bank loans		(900,000)	(1,300,000)
Repayment of finance lease payable		(62,805)	(61,300)
Interest paid		(53,530)	(63,130)
		<u>(526,335)</u>	<u>(1,424,430)</u>
<b>Net cash used in financing activities</b>		<b>(526,335)</b>	<b>(1,424,430)</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>		<b>163,485</b>	<b>(300,080)</b>
<b>Exchange losses on cash balances</b>		<b>(5,505)</b>	<b>(3,920)</b>
<b>Cash and cash equivalents at 1 January</b>		<u>549,980</u>	<u>853,980</u>
<b>Cash and cash equivalents at 31 December</b>	13	<u><u>707,960</u></u>	<u><u>549,980</u></u>

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

## **SME GROUP**

### **ACCOUNTING POLICIES AND EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 20X5

#### **Reporting entity**

SME Holdings Limited (the company) 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. SME group consists of the Company, its 90% owned subsidiary, SME (Manufacturing) Limited, which adopted the brand name "Fun Times" for its business and its wholly owned subsidiary SME (Trading) Limited, which the group acquired in the current year. The Group's principal activities are the manufacture and sale of toys.

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

The company and each of its subsidiaries qualify for the reporting exemption as small private companies under section 359(1)(a) of the Hong Kong Companies Ordinance (Cap. 622), and the group as a whole qualifies for the reporting exemption as a small private group under section 359(2). The group 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 consolidated financial statements comply with the SME-FRS and have been prepared under the accrual basis of accounting and on the basis that the group 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) Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the company.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the company. Non-controlling interests in the results of the group are presented separately on the face of the consolidated income statement.

(b) Associates and joint ventures

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is a contractual arrangement whereby the group or company and other parties undertake an economic activity through an entity that is separate from the parties and subject to joint control.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at the transaction price (including transaction costs) and is subsequently adjusted to reflect the group's share of profit or loss after the date of acquisition. The group's share of the profit or loss of the associate and joint venture is recognised in the consolidated income statement. Distributions received from an associate or a joint venture reduce the carrying amount of the investments.

When the group's share of losses exceeds its interest in the associate or the joint venture, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the investee.

Unrealised profits and losses resulting from upstream and downstream transactions are eliminated to the extent of the group's interest in the associate and joint venture. 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the group. 'Downstream' transactions are, for example, sales of assets from the group to an associate or a joint venture. Unrealised losses on such transactions may provide evidence of an impairment of the asset transferred.

In the company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note 1(j)).

(c) Business combinations and goodwill

Acquisitions of businesses are accounted for using the purchase method. The cost of a business combination is the aggregate of the fair values, at the acquisition date, of assets given, liabilities incurred or assumed by the group and the equity instruments issued by the group in exchange for the control of the acquiree. Any costs directly attributable to the business combination are recognised in the income statement in the periods in which the costs are incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair values.

Goodwill represents the excess of

- (i) the cost of the business combination; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill acquired in a business combination is stated at cost less any accumulated amortisation and any accumulated impairment losses (see note 1(k)). Goodwill is amortised over its estimated useful life not exceeding 5 years using the straight-line method.

(d) 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.

(e) Borrowing costs

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

(f) Foreign exchange

The reporting currency of the company and its subsidiaries is Hong Kong Dollars, which is the currency of the primary economic environment in which each of these entities 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.

(g) 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.

(h) 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%



(i) Intangible assets (other than goodwill)

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.

(j) Investments

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

(k) 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, long term investments, goodwill, interest in subsidiaries and interests in associates and joint ventures. 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.

An impairment loss in respect for goodwill is not reversed. In respect of assets other than goodwill, 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.

(l) 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.

(m) 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.

(n) 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.

(o) Cash and cash equivalents<sup>2</sup>

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 group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

## 2. Revenue

An analysis of the group's revenue is as follows:

	<b>20X5</b> <b>HK\$</b>	<b>20X4</b> <b>HK\$</b>
Sale of goods	28,957,860	24,753,540
Rental income	78,000	68,000
Interest income	6,200	5,600
Dividend income from long term investment	12,120	7,470
	<u>29,054,180</u>	<u>24,834,610</u>

## 3. Finance costs

	<b>20X5</b> <b>HK\$</b>	<b>20X4</b> <b>HK\$</b>
Interest on bank loan and overdraft	41,030	55,100
Interest on finance leases	12,500	8,030
	<u>53,530</u>	<u>63,130</u>

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<sup>2</sup> 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.

#### 4. Profit before tax

Profit before tax is arrived at:

	Note	20X5 HK\$	20X4 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	(340,000)	(325,000)
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 and goodwill 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 HK\$	20X4 HK\$
Fees	350,000	350,000
Retirement benefits	12,000	12,000
Other emoluments	108,000	108,000
	<u>470,000</u>	<u>470,000</u>

#### 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 HK\$	20X4 HK\$
Tax charge for the year	235,250	225,430
Overprovision in prior years	(10,200)	-
	<u>225,050</u>	<u>225,430</u>

## 7. Property, plant and equipment

	Leasehold land and buildings HK\$	Furniture, fixtures and equipment HK\$	Total HK\$
Cost:			
At 1 January 20X5	5,040,000	2,428,180	7,468,180
Additions	-	2,031,530	2,031,530
Addition through acquisition of a subsidiary (see note 17)	-	350,000	350,000
Disposals	-	(1,527,470)	(1,527,470)
At 31 December 20X5	<u>5,040,000</u>	<u>3,282,240</u>	<u>8,322,240</u>
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	<u>2,240,000</u>	<u>811,940</u>	<u>3,051,940</u>
Net carrying amount:			
At 31 December 20X5	<u>2,800,000</u>	<u>2,470,300</u>	<u>5,270,300</u>
At 31 December 20X4	<u>2,880,000</u>	<u>1,224,010</u>	<u>4,104,010</u>

The carrying amount of equipment held under finance leases at 31 December 20X5 was HK\$81,000 (20X4: HK\$108,000).

## 8. Intangible assets

	Acquired brand name HK\$	Goodwill HK\$	Total HK\$
Cost:			
At 1 January 20X5	3,000,000	125,000	3,125,000
Addition through acquisition of a subsidiary (see note 17)	-	150,000	150,000
At 31 December 20X5	<u>3,000,000</u>	<u>275,000</u>	<u>3,275,000</u>
Accumulated amortisation:			
At 1 January 20X5	600,000	25,000	625,000
Amortisation for the year	300,000	40,000	340,000
At 31 December 20X5	<u>900,000</u>	<u>65,000</u>	<u>965,000</u>
Net carrying amount:			
At 31 December 20X5	<u>2,100,000</u>	<u>210,000</u>	<u>2,310,000</u>
At 31 December 20X4	<u>2,400,000</u>	<u>100,000</u>	<u>2,500,000</u>

The acquired brand name is being amortised over 10 years and the goodwill is being amortised over 5 years.

## 9. Interest in associate

	<b>20X5 HK\$</b>	<b>20X4 HK\$</b>
Interest in an associate	<u>420,000</u>	<u>400,000</u>

The following list contains the particulars of the associate which is an unlisted corporate entity and principally affected the results or assets of the Group:

Name of the associate	Place of incorporation and principal place of operation	% of ownership and voting power	Nature of business
SME Associate Limited	Hong Kong	25%	Provision of logistic management services

SME Associate Limited entered into a bank loan agreement for HK\$2,000,000 with ABC Bank on 30 September 20X3. The agreement restricts SME Associate Limited from paying any cash dividends prior to the full repayment of the bank loan, which is scheduled on 30 September 20X6.

## 10. Interest in joint venture

	<b>20X5 HK\$</b>	<b>20X4 HK\$</b>
Interest in a joint venture	<u>540,000</u>	<u>500,000</u>

The following list contains the particulars of the joint venture which is an unlisted corporate entity and principally affected the results or assets of the Group:

Name of the jointly controlled entity	Place of incorporation and principal place of operation	% of ownership and voting power	Nature of business
SME JV Limited	Hong Kong	50%	Operation of retail stores

## 11. Other long term investments

	<b>20X5 HK\$</b>	<b>20X4 HK\$</b>
Listed equity securities, at cost	<u>310,000</u>	<u>-</u>

The market value of listed equity securities as at 31 December 20X5 was HK\$325,190.

## 12. Inventories

Inventories comprise entirely of stock in trade.

**13. Cash and cash equivalents**

	<b>20X5 HK\$</b>	<b>20X4 HK\$</b>
Cash at bank and in hand	1,096,800	1,083,500
Bank overdrafts	<u>(388,840)</u>	<u>(533,520)</u>
Cash and cash equivalents in the consolidated cash flow statement <sup>3</sup>	<u><u>707,960</u></u>	<u><u>549,980</u></u>

**14. Secured bank loan and overdrafts**

At 31 December 20X5, the bank loan and bank overdraft were repayable as follows:

	<b>20X5 HK\$</b>	<b>20X4 HK\$</b>
Within 1 year or on demand	1,288,840	1,433,520
After 1 year	<u>100,000</u>	<u>400,000</u>
	<u><u>1,388,840</u></u>	<u><u>1,833,520</u></u>

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

**15. Obligations under finance leases**

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

	<b>20X5 HK\$</b>	<b>20X4 HK\$</b>
Not later than one year	64,745	62,805
Later than one year	<u>-</u>	<u>64,745</u>
	<u><u>64,745</u></u>	<u><u>127,550</u></u>

<sup>3</sup> 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.

## 16. Capital and reserves of the company and the group

### (a) Movement in components of equity of the group

	Share capital	Retained earnings	Total shareholders' equity	Non- controlling interest	Total equity
	HK\$	HK\$	HK\$	HK\$	HK\$
Balance as at 1 January 20X5	100,000	7,226,895	7,326,895	368,000	7,694,895
Profit for the year	-	1,305,220	1,305,220	103,735	1,408,955
Dividend paid (Interim dividend of HK\$1.1 per share)	-	(110,000)	(110,000)	-	(110,000)
	<u>100,000</u>	<u>8,422,115</u>	<u>8,522,115</u>	<u>471,735</u>	<u>8,993,850</u>
Balance as at 31 December 20X5	<u>100,000</u>	<u>8,422,115</u>	<u>8,522,115</u>	<u>471,735</u>	<u>8,993,850</u>

### (b) Movement in components of equity of the company

	Share capital	Retained earnings	Total equity
	HK\$	HK\$	HK\$
Balance as at 1 January 20X5	100,000	2,391,650	2,491,650
Profit for the year	-	342,330	342,330
Dividend paid (Interim dividend of HK\$1.1 per share)	-	(110,000)	(110,000)
	<u>100,000</u>	<u>2,623,980</u>	<u>2,723,980</u>
Balance as at 31 December 20X5	<u>100,000</u>	<u>2,623,980</u>	<u>2,723,980</u>

## 17. Business combination

On 30 June 20X5, the group acquired the entire equity interests in SME (Trading) Limited for business expansion. SME (Trading) Limited is incorporated in Hong Kong and engages in retail sales of toys.

The acquisition had the following effect on the group's assets and liabilities on the date of acquisition:

	<b>Note</b>	<b>HK\$</b>
Property, plant and equipment	7	350,000
Inventory		52,500
Trade and other receivables		102,300
Deposits and prepayments		46,710
Cash at bank		50,000
Trade and other payables		<u>(201,510)</u>
Fair value of identifiable net assets		<u>400,000</u>
Total consideration, satisfied in cash		<u>550,000</u>
Goodwill	8	<u>150,000</u>
Total consideration, satisfied in cash		550,000
Less: cash at bank acquired		<u>(50,000)</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries <sup>4</sup>		<u>500,000</u>

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<sup>4</sup> 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.



## 18. Statement of financial position of the company

Company-level statement of financial position		20X5	20X4
		HK\$	HK\$
	Note		
<b>Non-current assets</b>			
Property, plant and equipment		153,750	205,000
Investment in subsidiaries	18(b)	2,025,000	1,475,000
Investment in associate		100,000	100,000
Investment in joint venture		150,000	150,000
		2,428,750	1,930,000
<b>Current assets</b>			
Prepayments		20,000	20,000
Amount due from subsidiaries		500,000	500,000
Cash and bank balances		10,230	145,100
		530,230	665,100
<b>Current liabilities</b>			
Trade and other payables		(235,000)	(103,450)
Net Current Assets		295,230	561,650
<b>Net Assets</b>		2,723,980	2,491,650
<b>Equity</b>			
Share capital	16	100,000	100,000
Retained earnings	16	2,623,980	2,391,650
<b>Total equity</b>		2,723,980	2,491,650

### (b) Particulars of principal subsidiaries

Name of subsidiaries	Place of incorporation and principal place of operation	% of ownership and voting power	Nature of business
SME (Manufacturing) Limited	Hong Kong	90%	Toys manufacturing
SME (Trading) Limited	Hong Kong	100%	Retail sales of toys

## 19. Commitments under operating leases

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

	20X5 HK\$	20X4 HK\$
Within one year	573,060	573,060
After one year	573,060	1,146,120
	1,146,120	1,719,180

## 20. Contingent liabilities

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

	<b>20X5</b> <b>HK\$</b>	<b>20X4</b> <b>HK\$</b>
Guarantee given to the bank in connection with the facility granted to the joint venture	<u>500,000</u>	<u>-</u>

At 31 December 20X5, a subsidiary of the group had undertaken to guarantee a revolving banking facility granted to the joint venture to the extent of HK\$1,000,000. The maximum liability of the group at 31 December 20X5 under the guarantee issued was the outstanding amount of the facility advanced by the bank to the joint venture of HK\$500,000.

## 21. Other related party transactions

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

	<b>20X5</b> <b>HK\$</b>	<b>20X4</b> <b>HK\$</b>
Goods sold to the joint venture	2,567,890	2,356,790
Trade receivables from the joint venture	238,000	205,120
Logistic services received from the associate	589,000	528,000
Trade payables to the associate	58,000	52,000

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

## 22. Approval of financial statements

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