

## **Technical Note 04/2006 – Financial Statements for the Year ended 31 December 2006 Paul Yeung [December 2006]**

Financial reporting standards issued by HKICPA up to Update No. 35 are set out in Appendix 1 of this Technical Note. If no further financial reporting standard is issued, those will be all the financial reporting standards in issue at 31 December 2006.

The financial reporting standards newly applicable to financial statements for the year ended 31 December 2006 include the following:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKAS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS–Int 4	Determining whether an Arrangement Contains a Lease
HKFRS–Int 5	Rights to Interests arising from Decommissioning and Environmental Rehabilitation Funds

Sample disclosures on initial application of these standards in financial statements for the year ended 31 December 2006 are included in Appendix 2 of this Technical Note

A summary of the principal new requirements of these standards and their possible effectives to financial statements for the year ended 31 December 2006 is as follows:

## **HKAS 19 (Amendment)** **Actuarial Gains and Losses, Group Plans and Disclosures**

Before the issuance of HKAS 19 (Amendment), actuarial gains and losses arising in post-employment defined benefit plans should be recognised in profit or loss either in the period in which they occur, or on a deferred basis.

HKAS 19 (Amendment) introduces a third recognition option, under which the actuarial gains and losses may be recognised outside profit or loss and presented in a statement of changes in equity titled 'Statement of Recognised Income and Expense'.

Paragraph 96 of HKAS 1 Presentation of Financial Statements is amended accordingly to refer to the 'Statement of Recognised Income and Expense' as an acceptable form of Statement of Changes in Equity.

### *Effect of the initial application HKAS 19 (Amendment)*

If a company does not have any post-employment defined benefit plans, it will not be affected by the initial application of HKAS 19 (Amendment).

Such a company may, however, elect to present a 'Statement of Recognised Income and Expense' as an alternative for presenting a Statement of Changes in Equity.

## **HKAS 21 (Amendment)** **Net Investment in a Foreign Operation**

### *Definition of net investment in foreign operation*

HKAS 21 (Amendment) inserts a new paragraph 15A to expand the scope of net investment in a foreign operation set out in paragraph 15 of HKAS 21.

Under the new paragraph 15A, monetary items of a subsidiary (of the reporting entity) receivable from or payable to a foreign operation (of the reporting entity) form a part of the reporting entity's net investment in that foreign operation, if settlement of these monetary items is neither planned nor likely to occur in the foreseeable future.

This principle also applies to monetary items of a foreign operation (of the reporting entity) receivable from or payable to another foreign operation of the reporting entity.

Before the issuance of HKAS 21 (Amendment), the application of paragraph 15 of HKAS 21 was restricted to monetary items of the reporting entity receivable from or payable to a foreign operation.

The scope of “net investment in a foreign operation” after HKAS 21 (Amendment) is summarised as follows:

Monetary Items	Receivable from or Payable to:		
	Reporting entity	Subsidiary	Foreign Operation
Of:			
Reporting entity	N/A	N/A	Para. 15
Subsidiary	N/A	N/A	Para. 15A
Foreign operation	Para 15	Para. 15A	Para. 15A

*Exchange difference arising from monetary items that form a part of the reporting entity's net investment in a foreign operation*

Under HKAS 21 (Amendment), if a monetary item that forms part of the reporting entity's net investment in a foreign operation is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, the exchange differences that arise on translating the monetary item (which should have been recognised in profit or loss in the separate financial statements of the reporting entity or the individual financial statements of the foreign operation as appropriate) should be initially recognised as separate component of equity in the consolidated financial statements of the reporting entity (i.e. reclassified from profit or loss to exchange reserves at the group level) and should be recognised in (consolidated ) profit or loss on disposal of the net investment in the foreign operations.

Before HKAS 21 (Amendment), such reclassification was restricted to exchange differences arising on translating monetary items denominated in the functional currency of either the reporting entity or the foreign operation.

*Effect of the initial application HKAS 21 (Amendment)*

HKAS 21 (Amendment) does not set out transitional provisions. Therefore, the general principles of HKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors should be applied.

In particular, on initial application of HKAS 21 (Amendment), the comparatives presented in the consolidated financial statements for the current period should be restated retrospectively if in the prior years exchange differences arising on translating the following monetary items (settlement of which is neither planned nor likely to occur in the foreseeable future) receivable from or payable to a foreign operation of the reporting entity had been recognised in the consolidated profit or loss of the reporting entity:

- 1) monetary items that are denominated in a currency other than the functional currency of either the reporting entity or the foreign operation had been recognised in the consolidated profit or loss; or
- 2) monetary items of a subsidiary, or a foreign operation, of the reporting entity.

### **HKAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions**

Under HKAS 39, only assets, liabilities, firm commitments or highly probable forecast transactions that involve a party external to the entity can be designated as hedged items for hedge accounting purposes.

As an exception to this general principle, the foreign currency risk of an intragroup monetary item (e.g. a payable/receivable between two subsidiaries) may qualify as a hedged item in the consolidated financial statements if it results in an exposure to foreign exchange rate gains or losses that are not fully eliminated on consolidation in accordance with HKAS 21.

HKAS 39 (Amendment) “Cash Flow Hedge Accounting of Forecast Intragroup Transactions” further extends the exception to the general principle by allowing that the foreign currency risk of a highly probable forecast intragroup transaction may qualify as a hedged item in consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

#### *Effect of the initial application*

According to the transitional provision set out in paragraph 108B of HKAS 39, an entity need not restate comparatives relating to periods before the initial application of HKAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions.

### **HKAS 39 (Amendment) The Fair Value Option**

Before HKAS 39 (Amendment) The Fair Value Option, any financial asset or financial liability within the scope of HKAS 39 (except for investments in equity instruments that do not have a quoted market price in an active market) may be designated as a financial asset or financial liability at fair value through profit or loss when the financial asset or liability is initially recognised.

Under HKAS 39 (Amendment) The Fair Value Option, the designation of a financial asset or financial liability as “at fair value through profit or loss” is restricted to the following circumstances:

- the designation results in more relevant information, and satisfies conditions set out in paragraph 9(b) of HKAS 39; or
- the designation is permitted by paragraph 11A or is required by paragraph 12 of HKAS 39, which apply to contracts containing one or more embedded derivatives (i.e. hybrid contracts).

### *Effect of the initial application*

If the reporting entity had designated (i.e. not through classification as held for trading) financial assets or financial liabilities as “at fair value through profit or loss”, it should refer to paragraph 105C and 105D of HKAS 39 inserted by HKAS 39 (Amendment) The Fair Value Option, which set out transitional provisions for the amendments.

If the reporting entity had not designated any financial assets or financial liabilities as “at fair value through profit or loss” in prior years, the initial application of HKAS 39 (Amendment) The Fair Value Option will not result in restatement of comparatives.

## **HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts**

### *Financial Guarantee Contracts*

HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts introduce a new term “financial guarantee contracts”, which refers to “a contract that requires the issuer 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.”

Although a financial guarantee contract meets the definition of an insurance contract in HKFRS 4 Insurance Contracts if the risk transferred is significant, HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts requires the issuer of a financial guarantee contract to apply HKAS 39 to these contracts. That is, an issuer’s rights and obligations arising under an insurance contract that meets the definition of a financial guarantee contract fall under the scope of HKAS 39.

However, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either HKAS 39 or HKFRS 4 to such financial guarantee contracts.

The issuer may make that election contract by contract, but the election for each contract is irrevocable.

Unless the reporting entity is an issuer of other types of insurance contracts, for example, when the reporting entity is principally engaged in the insurance business, it is likely that the reporting entity would apply HKAS 39 to account for all its financial guarantee contracts. If the reporting entity applies HKFRS 4 to some or all of the financial guarantee contracts it issued, it should refer to HKFRS 4 for the detailed requirements.

HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts provides guidance to issuers of financial guarantee contracts. It does not apply to the accounting of financial guarantee contracts by holders of the contracts

### *Accounting of Financial Guarantee Contracts under HKAS 39*

#### Initial measurement

Paragraph 43 of HKAS 39 requires the issuer to recognise a financial guarantee contract initially at fair value.

If the financial guarantee contract was issued to an unrelated party in a stand-alone arm's length transaction, its fair value at inception is likely to equal the premium received, unless there is evidence to the contrary.

HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts does not provide exemptions on financial guarantee contracts issued between parents and their subsidiaries, between entities under common control, or by a parent or subsidiary on behalf of a subsidiary or the parent.

Therefore, a liability regarding financial guarantee contracts may initially be recognised in the separate or individual financial statements of the parent or its subsidiary, although these intragroup transactions would be eliminated on consolidation at the group level.

HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts does not set out guidance on the determination of fair value at inception of financial guarantee contracts issued between parents and their subsidiaries, between entities under common control, or by a parent or subsidiary on behalf of a subsidiary or the parent. The fair value at inception of such intragroup financial guarantee contracts is likely to be close to zero unless the issuer expects that it will make specified payments to reimburse the holder for a loss the holder incurs.

#### Subsequent measurement

After initial recognition, an entity shall measure financial guarantee contracts at the higher of:

- (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

These subsequent measurement requirements do not apply to the contracts that are designated as "at fair value through profit or loss" or to financial liabilities that arise on a transfer of financial asset governed by paragraph 47(a) of HKAS 39.

### *Effect of the initial application*

HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts does not set out transitional provisions for the amendment it makes to HKAS 39 and HKFRS 4. Therefore, the general principles of HKAS 8 should be applied.

In the financial statements of a reporting entity which has issued financial guarantee contracts, it should disclose its accounting policy for the financial guarantee contracts. Example disclosure is as follows:

“Financial guarantee contracts are 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. The Company applies HKAS 39 “Financial Instruments: Recognition and Measurement” in accounting for financial guarantee contracts.

Financial guarantee contracts are measured initially at fair value and subsequently at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised.”

### **HKFRS 6 Exploration for and Evaluation of Mineral Resources**

#### *Scope of HKFRS 6*

Exploration for and evaluation of mineral resources refer to the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource.

HKFRS 6 applies to expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable (“exploration and evaluation expenditures” for the purpose of HKFRS 6).

HKFRS 6 does not address other aspects of accounting by entities engaged in the exploration for and evaluation of mineral resources. That is, an entity should not apply HKFRS 6 to:

- (a) expenditures incurred before the exploration for and evaluation of mineral resources, such as expenditures incurred before the entity has obtained the legal rights to explore a specific area; and
- (b) expenditures incurred after the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

### *Principal requirements of HKFRS 6*

Exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy should be:

- measured at cost; and
- assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an entity should measure, present and disclose any resulting impairment loss in accordance with HKAS 36 Impairment of Assets.

### *Effect of the initial application*

HKFRS 6 does not set out specific transitional provisions. The general principles of HKAS 8 should be applied. In particular, if it is impracticable to apply a particular requirement of HKFRS 6 to comparative information, an entity shall disclose that fact.

Initial application of HKFRS 6 does not affect companies which had not incurred any exploration and evaluation expenditures.

## **HKFRS-Int 4 Determining whether an Arrangement Contains a Lease**

### *Issues addressed by HKFRS-Interpretation 4 ("HKFRS-Int 4")*

An entity may enter into an arrangement that does not take the legal form of a lease but conveys a right to use an asset (e.g. an item of property, plant or equipment) in return for a payment or series of payments.

An example of such an arrangement is a take-or-pay contract, in which purchasers must make specified payments regardless of whether they take delivery of the contracted products or services (e.g. a take-or-pay contract to acquire substantially all of the output of a supplier's power generator).

### *Principal requirements of HKFRS Int 4*

HKFRS Int-4 requires that the determination of whether an arrangement is (or contains) a lease shall be based on the substance of the arrangement. The determination requires an assessment of whether:

- (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and
- (b) the arrangement conveys a right to use the asset.

If an arrangement contains a lease, the parties to the arrangement shall apply the requirements of HKAS 17 Leases to the lease element of the arrangement. Accordingly, the lease shall be classified as a finance lease or an operating lease in accordance with HKAS 17. Other elements of the arrangement not within the scope of HKAS 17 shall be accounted for in accordance with other HKFRSs.

For the purpose of applying the requirements of HKAS 17 to the lease element of the arrangement, payments and other consideration required by the arrangement shall be separated at the inception of the arrangement or upon a reassessment of the arrangement into those for the lease and those for other elements on the basis of their relative fair values.

#### *Effect of the initial application*

The transitional provisions of HKFRS Int-4 exempt an entity to comply with HKAS 8 regarding the initial application of an Interpretation. If an entity takes advantage of this exemption available in HKFRS Int-4, it should apply HKFRS-Int 4 to arrangements existing at the start of the earliest period for which comparative information under HKFRSs is presented on the basis of facts and circumstances existing at the start of that period.

That is, for the purposes of financial statements for the year ended 31 December 2006, HKFRS-4 should be applied to arrangements existing at 1 January 2005.

### **HKFRS-Int 5 Rights to Interests arising from Decommissioning and Environmental Rehabilitation Funds**

#### *Scope of HKFRS-Interpretation 5 ("HKFRS-Int 5")*

The purpose of decommissioning funds is to segregate assets to fund some or all of the costs of decommissioning plant (such as a nuclear plant) or certain equipment (such as cars), or in undertaking environmental rehabilitation (such as rectifying pollution of water or restoring mined land).

HKFRS-Int 5 applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that (a) the assets are administered separately and (b) a contributor's right to access the assets is restricted.

#### *Effect of the initial application*

HKFRS-Int 5 does not set out specific transitional provisions. The general principles of HKAS 8 should be applied.

Initial application of HKFRS-Int 5 does not affect companies which had not contributed to a decommissioning fund.

## **Appendix 1**

		<b>Effective date*</b>	
HKAS 01	Presentation of Financial Statements	1 Jan 2005	
HKAS 01 Amendment	Capital Disclosures	1 Jan 2007	X
HKAS 02	Inventories	1 Jan 2005	
HKAS 07	Cash Flow Statements	1 Jan 2005	
HKAS 08	Accounting Policies, Changes in Accounting Estimates and Errors	1 Jan 2005	
HKAS 10	Events After the Balance Sheet Date	1 Jan 2005	
HKAS 11	Construction Contracts	1 Jan 2005	
HKAS 12	Income Taxes	1 Jan 2005	
HKAS 14	Segment Reporting	1 Jan 2005	
HKAS 16	Property, Plant and Equipment	1 Jan 2005	
HKAS 17	Leases	1 Jan 2005	
HKAS 18	Revenue	1 Jan 2005	
HKAS 19	Employee Benefits	1 Jan 2005	
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures	1 Jan 2006	N
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1 Jan 2005	
HKAS 21	The Effects of Changes in Foreign Exchange Rates	1 Jan 2005	
HKAS 21 Amendment	Net Investment in a Foreign Operation	1 Jan 2006	N
HKAS 23	Borrowing Costs	1 Jan 2005	
HKAS 24	Related Party Disclosures	1 Jan 2005	
HKAS 26	Accounting and Reporting by Retirement Benefit Plans	1 Jan 2005	
HKAS 27	Consolidated and Separate Financial Statements	1 Jan 2005	
HKAS 28	Investments in Associates	1 Jan 2005	
HKAS 29	Financial Reporting in Hyperinflationary Economies	1 Jan 2005	
HKAS 31	Interests in Joint Ventures	1 Jan 2005	
HKAS 32	Financial Instruments: Presentation	1 Jan 2005	
HKAS 33	Earnings Per Share	1 Jan 2005	
HKAS 34	Interim Financial Reporting	1 Jan 2005	
HKAS 36	Impairment of Assets	1 Jan 2005	
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 Jan 2005	
HKAS 38	Intangible Assets	1 Jan 2005	
HKAS 39	Financial Instruments: Recognition and Measurement	1 Jan 2005	
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities	1 Jan 2005	
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 Jan 2006	N
HKAS 39 Amendment	The Fair Value Option	1 Jan 2006	N

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		<b>Effective date*</b>	
HKAS 39 Amendment	Financial Guarantee Contracts	1 Jan 2006	N
HKAS 40	Investment Property	1 Jan 2005	
HKAS 41	Agriculture	1 Jan 2005	
HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards	1 Jan 2004	
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources	July 2005 <sup>^</sup>	
HKFRS 2	Share-based payment	1 Jan 2005	
HKFRS 3	Business Combinations	1 Jan 2005	
HKFRS 4	Insurance Contracts	1 Jan 2005	
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 Jan 2005	
HKFRS 6	Exploration for and Evaluation of Mineral Resources	1 Jan 2006	N
HKFRS 7	Financial Instruments: Disclosures	1 Jan 2007	X
HKFRS-Int 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1 Sept 2004	
HKFRS-Int 2	Members' Shares in Co-operative Entities and Similar Instruments	1 Jan 2005	
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease	1 Jan 2006	N
HKFRS-Int 5	Rights to Interests arising from Decommissioning and Environmental Rehabilitation Funds	1 Jan 2006	N
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	1 Dec 2005	
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006	X
HK(IFRIC)-Int 8	Scope of HKFRS 2	1 May 2006	X
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	1 June 2006	X
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	1 Nov. 2006	X
HK-Int 1	The Appropriate Accounting Policies for Infrastructure Facilities	1 Oct 2004 <sup>^</sup>	
HK-Int 3	Revenue – Pre-completion Contracts for Sale of Development Properties	1 Jan 2005 <sup>^</sup>	
HK-Int 4	Leases – Determination of the Length of lease term in respect of Hong Kong Land Leases	24 May 2005 <sup>^</sup>	
HKAS-Int 10	Government Assistance – No Specific Relation to Operating Activities	1 Jan 2005	
HKAS-Int 12	Consolidation – Special Purpose Entities	1 Jan 2005	
HKAS-Int 12 Amendment	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities	1 Jan 2005	
HKAS-Int 13	Jointly Controlled Entities – Non-Monetary Contributions by Venturers	1 Jan 2005	
HKAS-Int 15	Operating Leases – Incentives	1 Jan 2005	

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		<b>Effective date*</b>
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	1 Jan 2005
HKAS-Int 25	Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders	1 Jan 2005
HKAS-Int 27	Evaluating the Substance of Transactions in the Legal Form of a Lease	1 Jan 2005
HKAS-Int 29	Disclosure – Service Concession Arrangements	1 Jan 2005
HKAS-Int 31	Revenue – Barter Transactions Involving Advertising Services	1 Jan 2005
HKAS-Int 32	Intangible Assets – Web site Costs	1 Jan 2005

## **Appendix 2**

### 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the [consolidated] financial statements are set out below:-

#### (a) Basis of Preparation

The [consolidated] financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (hereinafter collectively referred to as “Hong Kong Financial Reporting Standards”), and are prepared under the historical cost basis [as modified by revaluation of certain properties and financial assets as explained in the accounting policies set out below].

#### (b) Initial application of Hong Kong Financial Reporting Standards

In the current year, the company initially applied the following Hong Kong Financial Reporting Standards:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21(Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKAS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS–Int 4	Determining whether an Arrangement Contains a Lease
HKFRS–Int 5	Rights to Interests arising from Decommissioning and Environmental Rehabilitation Funds

The initial application of these Hong Kong Financial Reporting Standards does not necessitate material changes in the Company's accounting policies or retrospective adjustments of the comparatives presented.

[The initial application of these Hong Kong Financial Reporting Standards necessitates certain material changes in the Company's accounting policies and retrospective adjustments of the comparatives presented. These changes and adjustments are summarised as follows:

(i) HKAS 21(Amendment) Net Investment in a Foreign Operation

In prior years, exchange differences arising on translating monetary items whose settlement was neither planned nor likely to occur in the foreseeable future between the Company and its foreign operations in a currency other than the functional currency of either the Company or the foreign operation, or amongst the Company's subsidiaries and foreign operations in any currencies, were included in the consolidated profit or loss.

Upon the application of HKAS 21 (Amendment) Net Investment in a Foreign Operation with effect from 1 January 2006, these exchange differences should be initially recognised as a component of equity and recognised in profit or loss on disposal of the net investment in the foreign operations.

As a result of this change in accounting policy, the accumulated profits as at 1 January 2006 and 2005 have been increased/(decreased) by HK\$xxx and (HK\$xxx) respectively and the exchange reserves as at 1 January 2006 and 2005 have been (decreased)/increased by (HK\$xxx) and (HK\$xxx) respectively. The profit for the year ended 31 December and 2006 and 2005 has been decreased by HK\$xxx and HK\$xxx respectively.

(ii) HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts

In prior years, financial guarantee contracts are disclosed as contingent liabilities.

Upon the application of HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts with effect from 1 January 2006, financial guarantee contracts are measured initially at fair value and subsequently at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised.

The initial application of HKAS 39 & HKAS 4 (Amendment) Financial Guarantee Contracts does not necessitate retrospective adjustments of the comparatives presented.]

(c) Hong Kong Financial Reporting Standards in issue but not yet effective

The following Hong Kong Financial Reporting Standards in issue at 31 December 2006 have not been applied in the preparation of the Company's [consolidated] financial statements for the year ended 31 December 2006 since they were not yet effective for the annual period beginning on 1 January 2006:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The Company is required to initially apply these standards in its annual [consolidated] financial statements beginning on 1 January 2007.