

## Technical Note 02/2007 – Financial Statements for the Year ended 31 December 2007

Financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) up to Update No. 44 are set out in Appendix I of this Technical Note. If no further financial reporting standard is issued, those will be all the financial reporting standards in issue as at 31 December 2007.

The financial reporting standards newly applicable to financial statements for the year ended 31 December 2007 include the following:

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital 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

Sample disclosures of the basis of preparation to disclose the initial application of these standards in financial statements for the year ended 31 December 2007 are included in Appendix II of this Technical Note.

The principal requirements of these new standards and their possible effects on initial application is summarised as follows:

### **Hong Kong Financial Reporting Standard 7 (“HKFRS 7”) Financial Instruments: Disclosures**

HKAS 7 sets out disclosure requirements for financial instruments, including disclosures of the nature and extent of the risks arising from these financial instruments.

Before the issuance of HKFRS 7, disclosure requirements for financial instruments are set out in paragraphs 51 to 95 of HKAS 32 “Financial Instruments: Disclosure and Presentation”. HKAS 32 is now renamed as “Financial Instruments: Presentation” and paragraphs 51 to 95 of HKAS 32 are deleted by HKFRS 7.

The amended HKAS 32 continues to set out the presentation requirements for the issuers of financial instruments, mainly on the classification the financial instruments as financial assets, financial liabilities and equity instrument of the issuers. The amended HKAS 32 also continues to set out requirements on offsetting of financial assets and financial liabilities.

The disclosure requirements for financial instruments now set out in HKFRS 7 are, in general, similar to those previously set out in HKAS 32. The following are the major differences:

- Paragraph 8 of HKFRS 7 requires disclosure of the carrying amounts of each major category of financial assets and financial liabilities. Interestingly, the previous HKAS 32 does not explicitly require such disclosures, although such disclosures would normally be included in the financial statements in the absence of such explicit requirements;
- Paragraph 16 of HKFRS 7 requires that, where impairment due to credit losses are recorded in a separate allowance account rather than directly reducing the carrying amount of the impaired financial asset, a reconciliation of changes in that allowance account should be disclosed.

This new requirement may affect the disclosure of impairment of trade receivables, if reconciliations for such an allowance account were not disclosed in prior periods;

- Paragraph 37 of HKFRS 7 requires disclosure by class of financial assets analyses of age of financial assets past due and analyses of impaired financial assets.

This new requirement may affect the disclosure of the aging and impairment of trade receivables, if such disclosures were not made in prior periods;

- Paragraph 39 and Application Guide B11 to B16 of HKFRS 7 require disclosure of maturity analyses of the contractual undiscounted cash flows of liabilities.

While similar disclosures on maturity dates may have been made in previous in accordance with paragraphs 69 to 70 of HKAS 32, the requirements of HKFRS 7 are more detailed.

- The previous HKAS 32 requires very detailed disclosures on the terms, interest rate re-pricing dates, effective interest rates. HKFRS 7 does not set out requirements for such detailed disclosures, but requiring disclosure of sensitivity analyses for market risks, which are mainly interest rate risk and currency risk.

These new requirements set out in Paragraphs 40 to 42 and Application Guide B11 to B16 of HKFRS 7 will probably affect the disclosures in the financial statements for the year ended 31 December 2007, including the comparatives, since such sensitivity analyses would not normally be presented in previous years.

Appendix III of this technical note sets out a table of comparison for the principal disclosure requirements of HKFRS 7 and HKAS 32.

Appendix IV of this technical notes sets out a sample disclosure for the nature and extent of risks arising from financial instruments.

#### *Effect of the initial application HKFRS 7*

Since HKFRS 7 is a standard on disclosure requirements, the initial application of HKFRS 7 does not necessitate any changes in the reporting entity's accounting policies or retrospective restatement of the comparatives presented.

However, comparatives for certain newly required disclosures may have to be presented retrospectively.

#### **HKAS 1 (Amendment)** **Capital Disclosures**

HKAS 1 Amendment: *Capital Disclosures* requires that an entity shall disclose information that enables users of its financial statements to evaluate the reporting entity's objectives, policies and processes for managing capital. For these purposes, the reporting entity should disclose the following:

- (a) qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):
  - (i) a description of what it manages as capital;
  - (ii) when an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital;
  - (iii) how it is meeting its objectives for managing capital; and
  - (iv) any change from the previous period.
- (b) summary quantitative data about what it manages as capital, and any change from the previous period.

Some entities regard some financial liabilities (e.g. some forms of subordinated debt) as part of capital. Other entities regard capital as excluding some components of equity (e.g. components arising from cash flow hedges).

- (c) whether during the period it complied with any externally imposed capital requirements to which it is subject.
- (d) when the entity has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

It should be noted that:

- these disclosures shall be based on the information provided internally to the entity's key management personnel.
- disclosure of information about capital should be required of all entities, regardless of whether the reporting entity is regulated or not; and
- quantitative disclosure of externally imposed capital requirements, if any, are not required.

Appendix V of this technical note sets out a sample capital disclosure for a unregulated entity.

#### *Effect of the initial application HKAS 1 (Amendment) Capital Disclosures*

Since HKAS 1 (Amendment) *Capital Disclosures* sets out disclosure requirements only, the initial application of HKAS 1 (Amendment) *Capital Disclosures* does not necessitate any changes in the reporting entity's accounting policies or retrospective restatement of the comparatives presented.

However, comparatives for the newly required disclosures would have to be presented retrospectively.

#### **Hong Kong (IFRIC) Interpretation 7 ("HK(IFRIC)-Int7")** **Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies**

##### *Issues addressed by HK(IFRIC)-Int 7*

HK(IFRIC)-Int 7 provides guidance on how to apply the requirements of HKAS 29 *Financial Reporting in Hyperinflationary Economies* in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the entity therefore restates its financial statements in accordance with HKAS 29.

### *Effect of initial application*

The initial application of HK(IFRIC)-Int 7 does not necessitate any changes in the reporting entity accounting policies or retrospective restatement of the comparatives presented, unless the entity identifies the existence of hyperinflation in the economy of its functional currency in the current period.

### **Hong Kong (IFRIC) Interpretation 8 (“HK(IFRIC)-Int 8”)** **Scope of HKFRS 2**

#### *Issues addressed HK(IFRIC)-Int 8*

HKFRS 2 *Share-based Payment* applies to share-based payment transactions in which the entity receives or acquires goods or services. For transactions in which share-based payments are made to parties other than employees, HKFRS 2 specifies a rebuttable presumption that the fair value of the goods or services received can be estimated reliably.

In some cases, however, it might be difficult to demonstrate that goods or services have been (or will be) received. For example, an entity may grant shares to a charitable organisation for nil consideration. This raises the question of whether the HKFRS applies in the absence of identifiable goods or services.

That in turn raises a further question: if the entity has made a share-based payment and the identifiable consideration received (if any) appears to be less than the fair value of the share-based payment, does this situation indicate that goods or services have been received, even though they are not specifically identified, and therefore that HKFRS 2 applies?

#### *Principal requirements of HK(IFRIC)-Int 8*

HK(IFRIC)-Int 8 clarifies that:

- HKFRS 2 applies transactions in which the entity cannot identify specifically some or all of the goods or services received;
- if the identifiable consideration received (if any) appears to be less than the fair value of the equity instruments granted or liability incurred, typically this circumstance indicates that other consideration (i.e. unidentifiable goods or services) has been (or will be) received.

HK(IFRIC)-Int 8 requires that under such circumstance, the reporting entity shall measure the unidentifiable goods or services, received or to be received, as the difference between the fair value of the share-based payment (at the grant date) and the fair value of any identifiable goods or services, received or to be received.

*Effect of initial application*

HK(IFRIC)-Int 8 does not set out specific transitional provisions. The general principles of HKAS 8 should be applied.

Since HK(IFRIC)-Int 8 clarifies the scope of HKFRS 2 and does not set out new recognition or measurement requirements, initial application of it does not necessitate any changes in the reporting entity's accounting policies.

If the reporting entity had not received unidentifiable goods or services through share-based payment transactions in prior periods, initial application of HK(IFRIC)-Int 8 does not necessitate retrospective restatement of the comparatives presented.

**Hong Kong (IFRIC) Interpretation 9 (“HK(IFRIC)-Int 9”)**  
**Reassessment of Embedded Derivatives**

*Issues addressed HK(IFRIC)-Int 9*

(i) *Reassessment for the need to separate the host and the derivatives*

HKAS 39 *Financial Instruments: Recognition and Measurement* requires an entity, when it first becomes a party to a contract, to assess whether any embedded derivatives contained in the contract are required to be separated from the host contract and accounted for as derivatives.

An issue arises on whether HKAS 39 requires such an assessment to be reconsidered throughout the life of the contract.

HK(IFRIC)-Int 9 clarifies that:

- (a) an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract;
- (b) subsequent reassessment is prohibited.
- (c) reassessment is required if there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract.

An entity should determine whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

(ii) First time adoption of HKFRSs

Another issue arising is whether an reporting entity should make its assessment on the basis of the conditions that existed when the entity first became a party to the contract, or those prevailing when the entity adopts HKFRSs for the first time.

HK(IFRIC)-Int 9 also clarifies that the reporting entity should make the assessment on the basis of the conditions that existed the date it first became a party to the contract (or the later date of a reassessment in response to a change in the terms of the contract that significantly modifies the cash flows)

*Effect of initial application*

HK(IFRIC)-Int 9 should be applied retrospectively.

Since HK(IFRIC)-Int 9 does not set out new recognition or measurement requirements, initial application of it does not necessitate any changes in the reporting entity's accounting policies.

Provided that (i) the reporting entity has not been a part to a contract embedded with derivatives; or that (ii) there had no material changes in terms of contract embedded with derivatives, the initial application of HK(IFRIC)-Int 9 does not normally necessitate any retrospective restatement of the comparatives presented.

**Hong Kong (IFRIC) Interpretation 10 ("HK(IFRIC)-Int 10")**  
**Interim Financial Reporting and Impairment**

*Issues addressed HK(IFRIC)-Int 10*

HKAS 36 *Impairment of Assets* requires that an impairment loss recognised for goodwill shall not be reversed in a subsequent period.

HKAS 39 *Financial Instruments: Recognition and Measurement* requires that impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. It also requires that impairment losses for financial assets carried at cost should not be reversed.

These requirements are in conflict with the requirements of HKAS 34 *Interim Financial Reporting*, which requires that the frequency of an entity's reporting (annual, half-yearly, or quarterly) shall not affect the measurement of its annual results. That is, impairment recognised in an earlier interim period should be reversed in the later period if no impairment, or a smaller impairment, would have been made if the assessment were made only at the balance sheet date.

HK(IFRIC)-Int 10 clarifies that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of:

- (i) goodwill; or
- (ii) an investment in either:
  - (a) an equity instrument or;
  - (b) a financial asset carried at cost.

HK(IFRIC)-Int 10 also clarifies that this conclusion does not extend by analogy to other areas of potential conflict between HKAS 34 and other standards.

#### *Effect of initial application*

Since HK(IFRIC)-Int 10 does not set out new recognition or measurement requirements, initial application of it does not necessitate any changes in the reporting entity's accounting policies.

An entity shall apply the Interpretation prospectively to (i) goodwill from the date at which it first applied HKAS 36, (ii) investments in equity instruments or in financial assets carried at cost from the date at which it first applied the measurement criteria of HKAS 39.

Provided that the reporting entity had not reversed, in prior periods, an impairment made in an interim period for goodwill or investment in equity investment or financial asset carried at cost, the initial application of HK(IFRIC)-Int 10 does not necessitate any retrospective restatement of the comparatives presented.

## Appendix I

		Effective*	
HKAS 01	Presentation of Financial Statements	1 Jan 2005	
HKAS 01A	Capital Disclosures	1 Jan 2007	N
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 19A	Actuarial Gains and Losses, Group Plans and Disclosures	1 Jan 2006	
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 21A	Net Investment in a Foreign Operation	1 Jan 2006	
HKAS 23	Borrowing Costs	1 Jan 2005	
HKAS 23 R	Borrowing Costs	1 Jan 2009	X
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 39A	Transition and Initial Recognition of Financial Assets and Financial Liabilities	1 Jan 2005	
HKAS 39A	Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 Jan 2006	
HKAS 39A	The Fair Value Option	1 Jan 2006	
HKAS 39A	Financial Guarantee Contracts	1 Jan 2006	
HKAS 40	Investment Property	1 Jan 2005	
HKAS 41	Agriculture	1 Jan 2005	

## Appendix I (Continued)

		Effective*	
HKFRS 1	First-time Adoption of Hong Kong Financial Reporting Standards	1 Jan 2004	
HKFRSs 1 & 6A	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	
HKFRS 7	Financial Instruments: Disclosures	1 Jan 2007	N
HKFRS 8	Operating Segments	1 Jan 2009	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 12A	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	
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 I (Continued)

		Effective*	
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	
HKFRS-Int 5	Rights to Interests arising from Decommissioning and Environmental Rehabilitation Funds	1 Jan 2006	
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 Mar 2006	N
HK(IFRIC)-Int 8	Scope of HKFRS 2	1 May 2006	N
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives	1 June 2006	N
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment	1 Nov 2006	N
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions	1 Mar 2007	X
HK(IFRIC)-Int 12	Service Concession Arrangements	1 Jan 2008	X
HK(IFRIC)-Int 13	Customer Loyalty Programmes	1 July 2008	X
HK(IFRIC)-Int 14	HKAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 Jan 2008	X

\* Unless other stated, an entity shall apply the Standard for annual periods beginning on or after the effective date.

^ Effective date of the standard/interpretation.

N Standard/interpretation newly applicable to the financial statements for the year ended 31 December 2007.

X Standard/interpretation not yet applicable to the financial statements for the year ended 31 December 2007.

## **Appendix II**

### **2. BASIS OF PREPARATION**

#### **(a) Compliance with Hong Kong Financial Reporting Standards**

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”).

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

In the current year, the Company [the Group] initially applied the following Hong Kong Financial Reporting Standards:

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

## **Appendix II (Continued)**

### **2. BASIS OF PREPARATION (Continued)**

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

The following Hong Kong Financial Reporting Standards in issue at 31 December 2007 have not been applied in the preparation of the Company's [the Group's consolidated] financial statements for the year ended 31 December 2007 since they were not yet effective for the annual period beginning on 1 January 2007:

HKAS 23 (Revised)	Borrowing Costs
HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2—Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 14	HKAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Company [The Group] is required to initially apply HK(IFRIC)-Int 11, HK(IFRIC)-Int 12, HK(IFRIC)-Int13 and HK(IFRIC)-Int 14 in its annual [consolidated] financial statements beginning on 1 January 2008, and to initially apply HKAS 23 (Revised) and HKFRS 8 in its annual [consolidated] financial statements beginning on 1 January 2009.

### Appendix III

HKFRS 7	HKAS 32	Brief Description of Requirement	Comment
Para. 8		Carrying amounts of classes of financial instrument	
Para. 9	94(e)	Designation of loan or receivable as at fair value through profit or loss	Not common
Para. 10–11 B4	94(f), AG40	Designation of financial liability as at fair value through profit or loss	Not common
Para. 12	94(g)	Re-classification of financial assets	Not common
Para. 13	94(a)	Transfer of financial assets not qualified for de-recognition	e.g. factoring of financial assets with recourse.
Para. 14	94(b)	Financial asset pledged	e.g. pledge of bank balances
Para. 15	94(c)	Collateral held that can be sold in the absence of default	Rare
Para. 16		Separate allowance account for credit loss***	
Para. 17	94(d)	Issue of compound instrument with multiple interdependent embedded derivatives.	Rare for non-financial institutions
Para. 18-19	94(j)	Defaults and breaches in loans payable and other loan agreements	Not common
Para. 20	94(h), (i)	Income, expenses, gains and loss for financial instrument	
Para. 21 B5	60(b)	Accounting policies for financial instrument	
Para. 22-24	58-59	Hedge accounting	Not common for non-financial institutions
Para. 25-29	86-92	Fair value disclosure.	
Para. 30		Fair value disclosure for contract with a discretionary participation feature as described in HKFRS 4 Insurance Contracts.	Rare for non-insurers
Para. 33	56-57	Qualitative summary of financial instruments exposed to (i) credit risk, (ii) liquidity risk, and (iii) market risk, including financial risk management policies.	
Para. 34-35 B7 – B8	76(b), 83-84	Quantitative summary of financial instruments exposed to (i) credit risk, (ii) liquidity risk, and (iii) market risk, including concentration of risks.	
Para. 36 B9 – B10	76(a), 77 -82	Credit risk exposure	
Para. 37		Analysis of financial assets past due or impaired***	
Para. 38		Took possession of collateral or called guarantee	Rare for non-financial institution
Para. 39 B11 - B16	69-70	Liquidity Risk due to financial liabilities***	
Para. 40-42 B17 – B24		Sensitivity of Market Risk***	

\*\*\* New requirements or requirements materially different from those of the previous HKAS 32. Sample disclosures of which are set out in Appendix IV.

## Appendix IV

Ref.	<b>Note 20 Nature and Extent of Financial Instrument Risks</b>		
	(a)	Credit Risk	
FRS 7.33(a)		Credit risk is the risk that a party to a financial instrument will cause a financial loss for the Company [the Group] by failing to discharge an obligation.	
FRS 7.33(b)		The Company [the Group] manages credit risks by setting up credit control policy and periodic evaluation of credit performance of the other parties, measured by the extent of past due or default.	
FRS 7.34(a), FRS 7.36(a)		Carrying amounts of financial assets as at 31 December 2007, which represented the amounts of maximum exposure to credit risks, were as follows:	
		<b>2007</b>	<b>2006</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
FRS 7.34(a)	Cash at bank and in hand	Xxx	Xxx
FRS 7.34(a)	Deposits with bank and financial institutions	Xxx	Xxx
FRS 7.34(a)	Trade receivables	Xxx	Xxx
FRS 7.34(a)	Debt security held for trading	Xxx	Xxx
FRS 7.34(a)	Held-to-maturity debt securities	Xxx	Xxx
FRS 7.34(a)	Available-for-sale debt instruments	Xxx	Xxx
FRS 7.34(a)	Loans to associates	Xxx	Xxx
FRS 7.34(a)	Loans to directors	Xxx	Xxx
FRS 7.34(c)		Except for the financial assets with carrying amount of HK\$xxx,xxx (2006: HK\$xxx,xxx) which were either past due or impaired, the management are satisfied with the credit quality of finance assets.	
		[The following disclosure may be made in the note for trade receivable. Where necessary, similar disclosure for other categories of financial assets should be made.]	
FRS 7.37(a)		Analysis of age of trade receivables that were past due as at 31 December 2007 but not impaired:	
		<b>2007</b>	<b>2006</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
FRS 7.37(a)	Neither past due nor impaired	Xxx	Xxx
	Past due for less than 3 months but not impaired	Xxx	Xxx
	Impaired	Xxx	Xxx
		<u>Xxx</u>	<u>Xxx</u>
FRS 7.16		Except for trade receivables whose recovery were considered remote and impairment of which were written off directly from the carrying amount, an allowance for impairment of past due trade receivables was maintained. Movements of the allowance during the year were as follows:	
		<b>2007</b>	<b>2006</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
FRS 7.16	At 1 January	Xxx	Xxx
FRS 7.16	Trade receivables written off	(Xxx)	(Xxx)
7.20(e)	Impairment loss for the year	Xxx	Xxx
FRS 7.16	At 31 December	<u>Xxx</u>	<u>Xxx</u>

## **Appendix IV (Continued)**

### **Note 20 Nature and Extent of Financial Instrument Risks (Continued)**

#### (b) Liquidity Risk

FRS 7.33(a) Liquidity risk is the risk that the Company [the Group] will encounter difficulty in meeting obligations associated with financial liabilities.

FRS 7.33(b)  
FRS 7.39(b) The Company [the Group] manages liquidity risks by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of Company [the Group] to meet its financial obligations, measured by the debt-to-equity ratio.

FRS 7.39(a) Maturities of the financial liabilities of the Company [the Group] as at 31 December 2007 were as follows:

		<b>2007</b>	<b>2006</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
FRS 7.39(a), B14	Total amounts** of contractual undiscounted obligations:		
	- Bank loans and overdrafts	Xxx	Xxx
	- Trade and other payables	Xxx	Xxx
	- Obligation under finance leases	Xxx	Xxx
	- Long term borrowings	Xxx	Xxx
		<hr/>	<hr/>
		Xxx	Xxx
	Due for payment:		
FRS 7 B11	- Not later than one year	Xxx	Xxx
FRS 7 B11	- Later than one year but not later than five years	Xxx	Xxx
FRS 7 B11	- Later than five years	Xxx	Xxx
		<hr/>	<hr/>
		Xxx	Xxx

\*\*\* These amounts should include all the obligations to pay interests.

## Appendix IV (Continued)

### Note 20 Nature and Extent of Financial Instrument Risks (Continued)

#### (c) Currency Risk

FRS 7.33(a) Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

FRS 7.33(b) The Company [the Group] manages currency risks, when it is considered significant, by entering into appropriate currency forward contacts.

FRS 7.34(a) Carrying amounts of financial assets and financial liabilities as at 31 December 2007 that exposed to currency risks were as follows:

	<b>2007</b>	<b>2006</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
FRS 7.34(a) Financial assets denominated in foreign currencies:		
FRS 7.34(a) - Cash at bank and in hand	Xxx	Xxx
FRS 7.34(a) - Deposits with bank and financial institutions	Xxx	Xxx
FRS 7.34(a) - Trade receivables	Xxx	Xxx
FRS 7.34(a) - Debt security held for trading	Xxx	Xxx
FRS 7.34(a) - Held-to-maturity debt securities	Xxx	Xxx
FRS 7.34(a) - Available-for-sale debt instruments	Xxx	Xxx
FRS 7.34(a) - Loans to associates	Xxx	Xxx
FRS 7.34(a) - Loans to directors	Xxx	Xxx
	<u>Xxx</u>	<u>Xxx</u>
FRS 7.34(a) Financial liabilities denominated in foreign currencies:		
FRS 7.34(a) - Bank loans and overdrafts	Xxx	Xxx
FRS 7.34(a) - Trade and other payables	Xxx	Xxx
FRS 7.34(a) - Obligations under finance leases	Xxx	Xxx
FRS 7.34(a) - Long term borrowings	Xxx	Xxx
	<u>Xxx</u>	<u>Xxx</u>
Net financial assets/liabilities exposed to currency risks	<u>Xxx</u>	<u>Xxx</u>

FRS 7.34(a) The financial assets were denominated in the following foreign currencies:

FRS 7.34(a) - US dollars	Xxx	Xxx
FRS 7.34(a) - Euro dollars	Xxx	Xxx
FRS 7.34(a) - Japanese Yen	Xxx	Xxx
	<u>Xxx</u>	<u>Xxx</u>

FRS 7.34(a) The financial liabilities were denominated in the following foreign currencies:

FRS 7.34(a) - US dollars	Xxx	Xxx
FRS 7.34(a) - Euro dollars	Xxx	Xxx
FRS 7.34(a) - Japanese Yen	Xxx	Xxx
	<u>Xxx</u>	<u>Xxx</u>

FRS 7.40 Should Hong Kong dollars at 31 December 2007 devalue by 10% against all the foreign currencies other than US dollars, the net carrying amount of financial assets and financial liabilities exposed to currency risk at 31 December 2007 determined in accordance with HKAS 21 "The Effects of Changes in Foreign Exchange Rates", and hence the equity at 31 December 2007, would be reduced/increased by HK\$Xxx,xxx (2006: HK\$Xxx,xxx); and the profit or loss for the year ended 31 December 2007 would be increased/reduced by a net amount of HK\$Xxx,xxx (2006: HK\$Xxx,xxx).

## Appendix IV (Continued)

### Note 20 Nature and Extent of Financial Instrument Risks (Continued)

#### (d) Interest Rate Risk

FRS 7.33(a) Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

FRS 7.33(b) The Company [the Group] manages interest rate risks, when it is considered significant, by entering into appropriate swap contacts.

FRS 7.34(a) Carrying amounts of financial assets and financial liabilities as at 31 December 2007 that exposed to interest rate risks were as follows:

	2007 HK\$'000	2006 HK\$'000
FRS 7.34(a) Financial assets earning fixed interests:		
FRS 7.34(a) - Deposits with bank and financial institutions	Xxx	Xxx
FRS 7.34(a) - Debt security held for trading	Xxx	Xxx
FRS 7.34(a) - Held-to-maturity debt securities	Xxx	Xxx
FRS 7.34(a) - Available-for-sale debt instruments	Xxx	Xxx
	<u>Xxx</u>	<u>Xxx</u>
FRS 7.34(a) Financial assets earning variable interests:		
FRS 7.34(a) - Held-to-maturity debt securities	Xxx	Xxx
FRS 7.34(a) - Available-for-sale debt instruments	Xxx	Xxx
	<u>Xxx</u>	<u>Xxx</u>
FRS 7.34(a) Financial liabilities bearing fixed interests:		
FRS 7.34(a) - Bank loans and overdrafts	Xxx	Xxx
FRS 7.34(a) - Obligations under finance leases	Xxx	Xxx
FRS 7.34(a) - Long term borrowings	Xxx	Xxx
	<u>Xxx</u>	<u>Xxx</u>
FRS 7.34(a) Financial liabilities bearing variable interests:		
FRS 7.34(a) - Bank loans and overdrafts	Xxx	Xxx
FRS 7.34(a) - Long term borrowings	Xxx	Xxx
	<u>Xxx</u>	<u>Xxx</u>
Net carrying amount of financial assets and financial liabilities exposed to interest rate risks	<u>Xxx</u>	<u>Xxx</u>

FRS 7.40 Should market interest rates at 31 December 2007 increase by 10%, the net carrying amount of financial assets and financial liabilities at 31 December 2007 exposed to interest rate risks, and hence the equity at 31 December 2007, would be reduced/increased by HK\$Xxx,xxx<sup>\*\*\*</sup> (2006: HK\$Xxx,xxx); and profit or loss for the year ended 31 December 2007 would be increased/reduced by a net amount of HK\$Xxx,xxx.<sup>^^</sup> (2006: HK\$Xxx,xx) The carrying amounts of financial assets and financial liabilities measured at amortised cost and the carrying amount of financial liabilities bearing variable interest measured at fair value would not be affected by the assumed 10% increase in interest rates.

<sup>\*\*\*</sup> Although a financial asset or financial liability may be subject to interest rate risk, its carrying amount may not necessarily be affected by the assumed 10% increase in market interest rates.

<sup>^^</sup> The effects of changes in carrying amounts on profit or loss should be determined in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement".

## **Appendix IV (Continued)**

### **Note 20 Nature and Extent of Financial Instrument Risks (Continued)**

(e) Market Price Risk

FRS 7.33(a) The market price risk is the risk that the fair value or future cash flows of a financial instrument traded in the market will fluctuate because of changes in market prices.

FRS 7.33(b) The Company [the Group] manages market prices risks, when it is considered significant, by entering into appropriate derivatives contacts.

FRS 7.34(a) Carrying amounts of financial assets as at 31 December 2007 that exposed to market price risks were as follows:

		<b>2007</b>	<b>2006</b>
		<b>HK\$'000</b>	<b>HK\$'000</b>
FRS 7.34(a)	Financial assets traded in the market:		
FRS 7.34(a)	- Financial assets held for trading	Xxx	Xxx
FRS 7.34(a)	- Held-to-maturity debt securities	Xxx	Xxx
FRS 7.34(a)	- Available-for-sale instruments	Xxx	Xxx
		<u>Xxx</u>	<u>Xxx</u>

FRS 7.40 Should market prices at 31 December 2007 decrease by 10%, the carrying amount at 31 December 2007 of financial assets traded in the market, and hence the equity at 31 December 2007, would be reduced by HK\$Xxx,xxx\*\*\* (2006: HK\$Xxx,xxx); and profit or loss for the year ended 31 December 2007 would be reduced by HK\$Xxx,xxx\*\*\* (2006: HK\$Xxx,xx). The carrying amount of held-to-maturity debt securities measured at amortised cost would not be affected by the assumed 10% reduction in market prices.

\*\*\* Although a financial asset may be subject to market price risk, its carrying amount may not necessarily be affected by the assumed 10% increase in market prices. The effects of changes in carrying amounts on profit or loss should be determined in accordance with HKAS 39 "Financial Instruments: Recognition and Measurement".

## **Appendix V**

The Group's equity capital management objectives are to safeguard the Group's ability to continue as a going concern and to provide an adequate return to shareholders commensurately with the level of risk. To meet these objectives, the Group manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by paying dividends to shareholders, issuing new equity shares, and raising or repaying debts as appropriate.

The Group's equity capital management strategy, which was unchanged from the previous periods, was to maintain a stable [and low] proportion in total debts and equity capital. The Group monitors equity capital on the basis of the debt-to-equity capital ratio, which is calculated as net debt over equity capital. Net debt is calculated as total debt less cash and cash equivalents. Equity capital comprises all components of equity (i.e. share capital, share premium, retained earnings, reserves [and minority interest]). The debt-to-equity capital ratios at 31 December 2007 and at 31 December 2006 were as follows:

	<b>2007</b>	<b>2006</b>
	<b>HK\$M</b>	<b>HK\$M</b>
Total debt	1,000	1,100
Less: cash and cash equivalent	(90)	(150)
Net debt	910	950
Total equity	138	140
Debt-to-capital ratio	6.6	6.8