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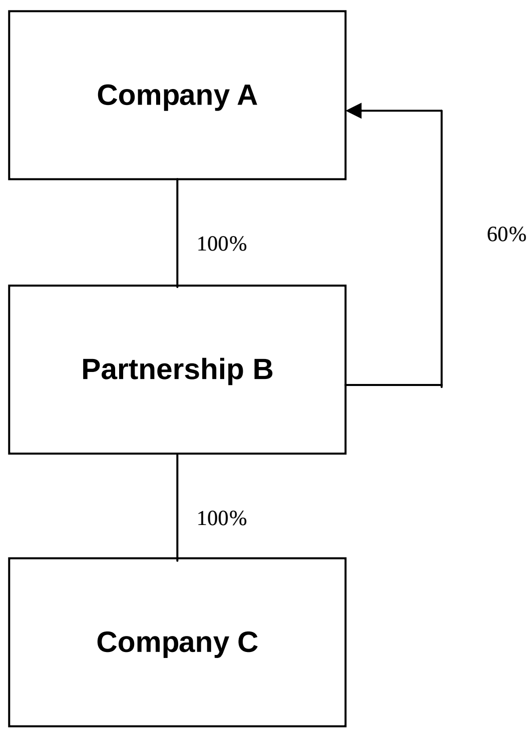
(English version only)

Sample Consolidated Financial Statements
provided by the Hong Kong Institute of Certified Public Accountants

Background

At the last Bills Committee meeting concerning the legislative amendments to the definition of subsidiary in the Companies Ordinance, a question was raised as to how the consolidated financial statements of the parent in a group structure as described below should be presented under the existing Hong Kong Financial Reporting Standards. The Hong Kong Institute of Certified Public Accountants (HKICPA) was then asked to present sample consolidated financial statements for consideration at the next Bills Committee meeting.

Group Structure



Objective

The purpose of this paper is to provide sample consolidated financial statements to illustrate how the consolidation of the above group should be presented under Hong Kong Financial Reporting Standards.

Assumptions

In presenting the sample consolidated financial statements, the following assumptions have been made:

- The group structure is legally viable and the cross-shareholding is not in breach of any Hong Kong law.
- The group structure does not result from transactions between entities under common control and thus the consolidated financial statements of the group are prepared using the purchase method of accounting.
- The percentage voting rights shown in the group structure indicates the extent of control of an entity over another entity.
- All entities in the group were set up at the same time and thus no goodwill arises on consolidation.
- There are no inter-group transactions except for the cross shareholding.

Individual financial statements

Individual income statements

	Company A	Partnership B	Company C
	$	$	$
Revenue	100	30	20
Profit before tax	35	20	15
Income tax expense	(6)	(3)	(2)
Profit for the year	29	17	13

Individual balance sheets

	Company A	Partnership B	Company C
	$	$	$
Assets			
Cash	39	18	20
Investment(s)	1	22	-
Receivables	60	30	20
	100	70	40
Liabilities	(20)	(20)	(10)
Net Assets	80	50	30
Capital and Equity			
Share Capital / Partnership Capital	20	1	10
Retained Earnings	60	49	20
	80	50	30

Notes:

1. Company A's investment represents the 100% investment in Partnership B
2. Company B's investments ($22) represent the 100% investment in Company C ($10) and the 60% investment in Company A ($12)

Consolidated financial statements of Company A

In the consolidated financial statements of Company A, 100% of Partnership B and Company C are included. The shares of Company A that are held by Partnership B are deducted from the equity of the Group.

Consolidated income statement of Company A

	Group $
Revenue (100 +30+20)	150
Profit before tax (35+20+15)	70
Income tax expense (6+3+2)	(11)
Profit for the year	59

Consolidated balance sheet of Company A

	$
Assets	
Cash (39+18+20)	77
Receivables (60+30+20)	110
	187
Liabilities (20+20+10)	(50)
	137
Capital and Equity	
Share Capital	20
Own shares held (20x60%)	(12)
Retained Earnings	129
	137

Notes to the financial statements of Company A:

1. Basis of presentation

   In preparing the consolidated financial statements, Accounting Standards require entities to look through from ultimate parent to ultimate subsidiaries for consolidation purposes. Accordingly, in the consolidated financial statements of Company A, both the financial statements of Partnership B and Company C are consolidated.

2. Investment in subsidiary

	Company A $	Group $
Investment in Partnership B	1	-

3. <u>Equity</u>

60% of the share capital of Company A is held by Partnership B, a subsidiary of Company A. Accordingly, in accordance with paragraph 33 of HKAS 32 *Financial Instruments: Disclosure and Presentation* in the consolidated financial statements, the shareholding of Company A held by Partnership B is deducted from the equity of the Group. This treatment arises purely on accounting and the shareholding of Company A held by Partnership B has no bearing on determining whether Company A is a parent of Partnership B or not.

2 February 2005