# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 March 2006*

## 1. GENERAL INFORMATION

Vision Tech International Holdings Limited ("the Company") was incorporated as an exempted company with limited liability in Bermuda. The address of its principal place of business is 11/F, 156-160 Des Voeux Road, Sheung Wan, Hong Kong. The Company is listed on The Stock Exchange of the Hong Kong Limited ("the Stock Exchange"). The trading of the Company's shares on the Stock Exchange has been suspended since 6 February 2003.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 12 to the financial statements.

These consolidated financial statements are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 July 2006.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The measurement basis used in preparing the consolidated financial statements is historical cost.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

During the year ended 31 March 2006, the Company and its subsidiaries (collectively referred to the "Group") had accumulated losses of approximately HK$168,775,000 and net current liabilities of approximately HK$8,084,000.

The financial statements of the Group and Company have been prepared on a going concern basis, the validity of which is dependent upon the Group maintaining future profitable operations, continuing financial support from its shareholders and the undertakings of a director and a shareholder not to demand repayment of debts from the Group until such time when repayment will not affect the Group's ability to repay other creditors in the normal course of business. A director has confirmed that it is her present intention to provide sufficient financial resources to the Group so as to enable the Group both to meet is liabilities as they fall due and to carry on business as a going concern.

Should the Group and Company be unable to continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the financial statements.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.2 The adoption of new/revised HKFRS

In the year ended 31 March 2005, the Group adopted the following new/revised HKFRSs which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income taxes |
| HKAS 14 | Segment reporting |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, contingent liabilities and contingent assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKFRS 3 | Business Combinations |
| HKAS Int 15 | Operating Leases – Incentives |

The adoption of the above new/revised HKASs did not result in substantial changes to the Group's accounting policies and has no material impact on the Company's and the Group's financial statements except for the following:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

### 2.3 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 March 2006*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.3 Consolidation *(Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

### 2.4 Foreign currency translation

*(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.4 Foreign currency translation *(Continued)*

*(c) Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.5 Segment reporting

The Group has determined that geographical segment is the primary reporting format. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

### 2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 March 2006*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.7 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition and is assigned by using the first in, first out (FIFO) cost formula. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

### 2.8 Trade and other receivables

Trade and other receivables are initially measured at fair value and, after initial recognition, at amortised cost less impairment losses for bad and doubtful debts, if any, except for the following receivables:

– Interest-free loans made to related parties without any fixed repayment terms or the effect of discounting being immaterial, that are measured at cost less impairment losses for bad and doubtful debt, if any; and

– Short-term receivables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount less impairment losses for bad and doubtful debt, if any.

At each balance sheet date, the company assesses whether there is any objective evidence that a receivable or group of receivables is impaired. Impairment losses on trade and other receivables are recognised in profit or loss when there is objective evidence that an impairment loss has been incurred and are measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at its original effective interest rate, i.e. the effective interest rate computed at initial recognition.

### 2.9 Trade and other payables

Trade and other payables are initially measured at fair value and, after initial recognition, at amortised cost, except for short-term payables with no stated interest rate and the effect of discounting being immaterial, that are measured at their original invoice amount.

### 2.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and other unsecured loan. Other unsecured loan is shown within current liabilities on the balance sheet.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.11 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

### 2.12 Employee benefits

*(a) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date by reference to the possibility that employees may leave before they use accumulated non-vesting entitlements.

*(b) Retirement benefit costs*

The company has joined the Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance. The company contributes 5% of the relevant income of staff members under the MPF Scheme. Contributions made for the Scheme by the company are capped at HK$1,000 for employees earning more than HK$20,000 a month. The assets of the Scheme are held separately from those of the company, in funds under the control of trustee.

Payments to the MPF Scheme are charged as an expense as they fall due.

### 2.13 Operating leases

Leases where substantially all the rewards and risks of ownership of assets, including legal title, remain with the leasing party are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease term. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 March 2006*

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.14 Provisions and contingent liabilities

Provisions are recognized for liabilities of uncertain timing or amount when the Company and Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of the one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### 2.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the company. Provided that it is probable that the economic benefits associated with the revenue transaction will flow to the company and the revenue and the costs, if any, in respect of the transaction can be measured reliably, revenue is recognized as follows:

*(a) Sales of goods*

Revenue from the sales of good is recognised when the company has delivered the goods to the customers and the customer has accepted the goods together with the risks and rewards of ownership of the goods.

*(b) Interest income*

Interest income is recognized using the effective interest method.

### 2.16 Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's management makes assumptions, estimates and judgements in the process of applying the Group's accounting policies that affect the assets, liabilities, income and expenses in the consolidated financial statements prepared in accordance with HKFRSs. The assumptions, estimates and judgements are based on historical experience and other factors that are believed to be reasonable under the circumstances. While the management reviews their judgements, estimates and assumptions continuously, the actual results will seldom equal to the estimates.

Certain key assumptions and risk factors in respect of the financial risk management are set out in note 4. Other key sources of estimation uncertainty have no significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 4. FINANCIAL RISK MANAGEMENT

The Group is exposed to various kinds of risks in its operation and financial instruments. The Group's risk management objectives and policies mainly focus on minimizing the potential adverse effects of these risks on the company by closely monitoring the individual exposure as follows:

### 4.1 Currency risk

The Group is exposed to foreign exchange risk arising mainly from United States dollars. For the year ended 31 March 2006, the Group did not subject to any significant exposure to foreign exchange risk. Hence, no financial instrument for hedging was employed.

### 4.2 Liquidity risk

The Group manages its fund conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need.

### 4.3 Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales to customers with an appropriate credit history. The carrying amount of the trade receivables included in the consolidated balance sheet represented the Group's maximum exposure to credit risk.

### 4.4 Cash flow interest rate risks

The company's exposure to cash flow interest rate risk is minimal as the director provides interest-free loans to the company.

## 5. TURNOVER, REVENUE AND SEGMENTAL INFORMATION

Turnover represents total invoiced value of goods supplied to customers after deduction of any goods returns and trade discounts.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Turnover | | |
| Sales of goods | **36,945** | 7,802 |
| Other revenue | | |
| Interest income | **2** | – |

## 5. TURNOVER, REVENUE AND SEGMENTAL INFORMATION *(Continued)*

The Group was principally engaged in trading and distribution of electronic home appliance during the year. The analysis of turnover and contribution to gross profit from operations by geographical locations as follows:

**By geographical locations**

| | Segment revenue | | Segment results | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **9,523** | 4,084 | **234** | 274 |
| PRC | **86** | – | **4** | – |
| South East Asia | **27,336** | 3,718 | **1,298** | 399 |
| | **36,945** | 7,802 | **1,536** | 673 |

## 6. FINANCE COSTS

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest charges on: | | |
| Bank loans and overdrafts | **–** | – |
| Other loan interest | **70** | 79 |
| | **70** | 79 |

## 7. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Auditors' remuneration | **270** | 150 |
| Operating charges | **180** | 242 |
| Staff costs (including directors' emoluments – note 9) | | |
| Contributions to defined contribution plan | **10** | 6 |
| Salaries and other benefits | **448** | 364 |
| | **458** | 370 |

## 8. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any assessable profit for the year.

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The charge comprises: | | |
| Current income tax | | |
| Hong Kong profits tax | **–** | – |

The tax on the Group's loss before tax differs from the theoretical amount that would arise using the Hong Kong profits tax rate applicable to the Group as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before tax | **(882)** | (2,204) |
| Tax calculated at a taxation rate of 17.5% | **(154)** | (385) |
| Income not subject to tax | **(1)** | – |
| Expenses not deductible for tax purposes | **119** | 330 |
| Tax losses for which no deferred income tax asset was recognised | **36** | 55 |
| Income tax expense | **–** | – |

## 9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) The remuneration of each of the directors for the year ended 31 March 2006 and 2005 are as follows:

**GROUP**

| | **Director fees** | |
|---|---|---|
| | **2006** | 2005 |
| **Non-executive director** | ***HK$'000*** | *HK$'000* |
| Cheng Hong Cheung | **100** | 100 |
| Leung Wing On, Louis | **120** | 60 |
| | **220** | 160 |

## 9. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

(b) Of the five individuals with the highest emoluments, two (2005: two) are directors. The aggregate of the emoluments in respect of the five (2005: five) individuals are as follows:

**GROUP**

| | **2006** *HK$'000* | 2005 *HK$'000* |
|---|---|---|
| Salaries and other emoluments | **220** | 160 |
| Bonuses | **–** | – |
| Retirement scheme contributions | **–** | – |
| | **220** | 160 |

The emoluments of the five (2005: five) individuals with the highest emoluments are with the following bands:

**GROUP**

| | **2006 Number of Individuals** | 2005 Number of Individuals |
|---|---|---|
| HK$Nil-HK$1,000,000 | **5** | 5 |
| HK$1,000,001-HK$2,500,000 | **–** | – |
| | **5** | 5 |

## 10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$562,000 (2005: HK$1,706,000).

## 11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to the equity holders of approximately loss of HK$837,000 (2005: HK$2,204,000) and the weighted average of 364,600,000 (2005: 364,600,000) ordinary shares during the year.

## 12. INVESTMENTS IN AND AMOUNTS DUE FROM/TO SUBSIDIARIES

### COMPANY

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Unlisted shares, at cost | **–** | – |
| Amount due from a subsidiary | **15** | 15 |
| Amounts due to subsidiaries | **(1,833)** | (958) |

The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed repayment terms.

Particulars of the subsidiaries at 31 March 2006 are as follows:

| **Name** | **Place of incorporation** | **Nominal value of issued capital** | **Percentage of issued capital held by the Company** | | **Principal activities** |
|---|---|---|---|---|---|
| | | | **Direct** | **Indirect** | |
| Chong Sun Securities Limited | The British Virgin Islands | US$1 | 100% | – | Investment holding |
| Asset Direct Trading Limited | The British Virgin Islands | US$1 | 100% | – | Investment holding |
| Capital Spirit Limited | The British Virgin Islands | US$1 | 100% | – | Investment holding |
| Moral Access Limited | Hong Kong | HK$10,000 | – | 100% | Trading |
| Gold Joy Industrial Limited | Hong Kong | HK$1 | – | 100% | Inactive |
| Gold Max Industrial Limited | Hong Kong | HK$1 | – | 100% | Inactive |
| Kingston Trading Limited | Hong Kong | HK$1 | – | 100% | Trading |
| Haier Business (HK) ** Company Limited | Hong Kong | HK$10,000 | – | 51% | Trading |

** The Group acquired 51% of shareholding in Haier Business (HK) Company Limited on 27 January 2006. However the establishment and operation of this subsidiary is subject to shareholders' approval in a general meeting.

## 13. INVENTORIES

### GROUP

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trading goods | **23** | – |
| | **23** | – |

The amount of inventories recognised as an expense during the year:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Carrying amount of inventories sold | **35,324** | 7,117 |
| Write-down of inventories | **54** | – |
| | **35,378** | 7,117 |

## 14. TRADE RECEIVABLES

### GROUP

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **5,067** | 70 |
| Less: Impairment loss for doubtful debts | **–** | – |
| | **5,067** | 70 |

At March 2006 and 2005, the ageing analysis of the trade receivables were as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 60 days | **4,950** | – |
| 61-90 days | **–** | – |
| Over 90 days | **117** | 70 |
| Less: Impairment loss for doubtful debts | **–** | – |
| | **5,067** | 70 |

## 15. TRADE PAYABLES

### GROUP

At March 2006 and 2005, the ageing analysis of the trade payables were as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 60 days | **1,873** | – |
| 61-90 days | **–** | – |
| Over 90 days | **77** | – |
| | **1,950** | – |

## 16. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest free and has no fixed repayment terms.

## 17. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest free and has no fixed repayment terms.

## 18. AMOUNTS DUE TO RELATED COMPANIES

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

## 19. OTHER LOAN (UNSECURED)

The other loan is unsecured, interest bearing at 7% per annum and repayable not later than one year from the date of its drawndown. The loan has been overdue since 13 February 2005.

## 20. DEFERRED INCOME TAX

No deferred taxation has been provided in the financial statements as there are deferred income tax assets arising from tax losses.

Deferred income tax assets are recognized for tax loss carry forwards to the extent that realization of the related tax benefit through the future taxable profits is probable. The Group has unrecognized tax losses of HK$520,286 (2005: HK$313,733) to carry forward against future taxable income. This tax loss has no expiry date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 March 2006*

## 21. SHARE CAPITAL

### GROUP AND COMPANY

| | **2006** *HK$'000* | 2005 *HK$'000* |
|---|---|---|
| Authorized: | | |
| 600,000,000 ordinary shares of HK$0.1 each | **60,000** | 60,000 |
| Issued and fully paid: | | |
| 364,600,000 ordinary shares of HK$0.1 each | **36,460** | 36,460 |

Under a share option scheme approved by the shareholders, the directors of the Company may, at their discretion, invite full-time employees including executive directors to take up options to subscribe for shares in the Company representing up to a maximum of 10% of the shares in issue from time to time (excluding shares issued on exercise of option under the share option scheme). No share option was granted by the Company during the year.

## 22. RESERVES

### GROUP

| | **Other reserves** | | | |
|---|---|---|---|---|
| | **Share premium** *HK$'000* | **Capital reserve** *HK$'000* | **Accumulated losses** *HK$'000* | **Total** *HK$'000* |
| Balance at 01/04/2004 | 42,823 | 81,869 | (165,734) | (41,042) |
| Loss for the year | – | – | (2,204) | (2,204) |
| Balance at 31/03/2005 | 42,823 | 81,869 | (167,938) | (43,246) |
| Loss for the year | – | – | (837) | (837) |
| Balance at 31/03/2006 | 42,823 | 81,869 | (168,775) | (44,083) |

## 22. RESERVES *(Continued)*

### COMPANY

| | Other reserves | | | |
|---|---|---|---|---|
| | Share premium | Capital reserve | Accumulated losses | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Balance at 01/04/2004 | 42,823 | 81,869 | (165,712) | (41,020) |
| Loss for the year | – | – | (1,706) | (1,706) |
| Balance at 31/03/2005 | 42,823 | 81,869 | (167,418) | (42,726) |
| Loss for the year | – | – | (562) | (562) |
| Balance at 31/03/2006 | 42,823 | 81,869 | (167,980) | (43,288) |

## 23. CAPITAL COMMITMENT

At 31 March 2006, the capital commitments outstanding not provided for in the financial statements were as follows:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contracted for | **510** | – |

## 24. LEASE COMMITMENT

At 31 March 2006, the total future minimum lease payments under non-cancellable operating leases for each of the following periods were:

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Not later than one year | **620** | – |
| Later than one year and not later than five years | **1,364** | – |
| Later than five years | **–** | – |
| | **1,984** | – |

## 25. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of loss for the year to cash flow from operating activities

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Loss before tax | **(882)** | (2,204) |
| Adjustments | | |
| – Interest paid | **70** | 79 |
| – Interest received | **(2)** | – |
| Operating loss before working capital changes | **(814)** | (2,125) |
| Increase in inventories | **(23)** | – |
| Increase in trade receivables | **(2,826)** | (70) |
| Increase/(decrease) in prepayments, deposits and other receivables | **(4,626)** | 275 |
| Increase in trade payables | **1,950** | – |
| Decrease/(increase) in other payable and accruals | **(387)** | 77 |
| Increase in deposit received | **77** | – |
| Increase in amount due to a director | **7,835** | 1,594 |
| Increase in amounts due to related companies | **238** | 180 |
| **CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES** | **1,424** | (69) |

### (b) Acquisition of subsidiaries

During the year the Group acquired a subsidiary, namely Haier Business (HK) Company Limited. The fair value of assets acquired and liabilities assumed were HK$Nil.

## 26. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Bank balances and cash | **1,214** | 2,853 |
| Other loan (unsecured) | **(1,000)** | (4,000) |
| Cash and cash equivalents | **214** | (1,147) |

## 27. MATERIAL RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

### (a) Transactions with related parties

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Rental expense paid to a related company | **180** | 180 |
| Settlement of liabilities by a director on behalf of the Group | **1,449** | 287 |
| Settlement of liabilities by the Group on behalf of a director | **93** | 505 |

All the transactions with related parties were negotiated at arm-length basis and in accordance with common commercial terms in the same manner as other external customers and suppliers.

### (b) Balances with related parties

| | **2006** | 2005 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amount due to Arko Resources Limited | **2,423** | 2,423 |
| Amount due to Mrs Pei Chen Chi Kuen, Delia | **9,429** | 1,594 |
| Others | **418** | 180 |
| | **12,270** | 4,197 |

## 28. COMPARATIVE FIGURES

Certain comparative figures have been re-classified as a result of the changes in accounting policies and the details of the changes in accounting policies are set out in note 2.2.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*31 March 2006*

## 29. HONG KONG FINANCIAL REPORTING STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR

HKFRSs that have been issued but are not yet effective for the year include the following HKFRSs which may be relevant to the company's operations and financial statements:

| | **Effective for annual periods beginning on or after** |
|---|---|
| Amendments to HKAS 39 Financial instruments: recognition and measurement and HKFRS 4 Insurance contracts – Financial guarantee contracts | 1 January 2006 |
| HKFRS 7 Financial instruments: disclosures | 1 January 2007 |
| Amendments to HKAS 1 Presentation of financial statements: capital disclosures | 1 January 2007 |

Initial assessment has indicated that the adoption of these HKFRSs would not have a significant impact on the company's financial statements in the year of initial application. The company will be continuing with the assessment of the impact of these HKFRSs and other significant changes may be identified as a result.