

Crossroads Foundation Limited 國際十字路協會有限公司
(Formerly known as Crossroads International Limited
國際十字路會有限公司)

Reports and Financial Statements

For the year ended 31 December 2005

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Expressed in Hong Kong dollars ("HK\$")

Directors' report for the year ended 31 December 2005

The directors present their report and the audited financial statements for the year ended 31 December 2005.

CHANGE OF COMPANY NAME

Pursuant to a special resolution held on 5 December 2005, the name of the company was changed from Crossroads International Limited to Crossroads Foundation Limited.

PRINCIPAL ACTIVITIES

The company is a registered non-profit organisation based in Hong Kong. Its principal activity is to take quality goods which people no longer want and to redistribute them to the welfare arenas of Hong Kong, China and elsewhere. It acts as a link between those in great need and those with the desire and resources to supply.

The company conducts its operations under the following registrations :

- Crossroads International
- Crossroads Central Asia
- Global Hand
- P3 International

RESULTS AND APPROPRIATIONS

The results of the company for the year ended 31 December 2005 and the state of its affairs at that date are set out in the financial statements on pages 4 to 17.

In accordance with the company's memorandum of association, no dividend shall be paid to the members of the company.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the company are set out in note 8 to the financial statements.

DIRECTORS

The directors of the company during the year were as follows :

David Lewis De Groen
Jane Rosemarie Henderson
Judy Joanne Butler
Malcolm Bruce Begbie
Sally Linda Begbie

In accordance with the company's articles of association, all directors shall hold office for three years and be eligible for re-election.

DIRECTORS' INTERESTS

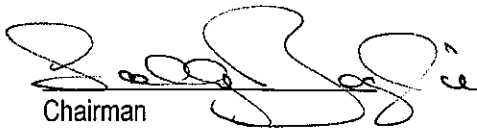
No contract of significance to which the company was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the company a party to any arrangements to enable the directors of the company to acquire benefits by means of acquisition of shares in or debentures of the company or any other body corporate.

AUDITORS

The company's auditors, Grant Thornton retire and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board


Chairman

26 June 2006

Auditors' report

To the members of Crossroads Foundation Limited 國際十字路協會有限公司
(Formerly known as Crossroads International Limited 國際十字路會有限公司)
(incorporated in Hong Kong as a company limited by guarantee and not having share capital)

We have audited the financial statements on pages 4 to 17 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

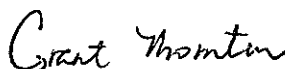
Basis of opinion

We conducted our audit in accordance with Hong Kong Standards of Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2005 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



Grant Thornton
Certified Public Accountants
Hong Kong

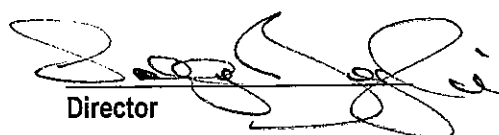
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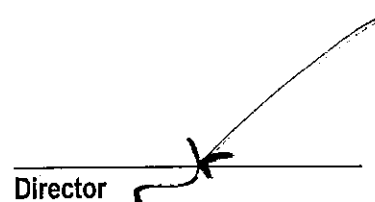
Income and expenditure account for the year ended 31 December 2005

	Notes	2005 HK\$	2004 HK\$
Income	5	8,841,208	8,386,122
Global handicrafts inventory expenses		(93,390)	-
Provision for obsolete stock		(25,000)	-
Depreciation		(603,408)	(707,747)
Other operating expenses		(7,652,270)	(5,401,729)
Surplus for the year	6	467,140	2,276,646

Balance sheet as at 31 December 2005

	Notes	2005 HK\$	2004 HK\$
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	3,394,017	2,338,086
Current assets			
Inventories	13	84,657	7,018
Trade and other receivables	9	386,570	597,210
Cash and cash equivalents		1,236,491	1,069,475
		1,707,718	1,673,703
Current liabilities			
Other payables	10	657,234	268,477
Amounts due to directors	11	742,561	502,746
		1,399,795	771,223
Net current assets		307,923	902,480
Net assets		3,701,940	3,240,566
EQUITY			
Accumulated surplus		3,707,706	3,240,566
Translation reserve		(5,766)	-
		3,701,940	3,240,566


Director


Director

Cash flow statement

for the year ended 31 December 2005

	2005 HK\$	2004 HK\$
Cash flows from operating activities		
Surplus for the year	467,140	2,276,646
Adjustments for :		
Depreciation of property, plant and equipment	603,408	707,747
Gain on disposal of property, plant and equipment	(2,235)	-
Interest income	(2,785)	(1,390)
Exchange translation difference	(5,766)	-
Operating profit before working capital changes	1,059,762	2,983,003
Increase in inventories	(77,639)	(7,018)
Decrease/(Increase) in accounts receivable	269,606	(194,292)
(Increase)/Decrease in other receivables	(58,966)	87,670
Increase in other payables	388,757	117,154
Increase in amounts due to directors	239,815	238,565
Net cash generated from operating activities	1,821,335	3,225,082
Cash flows from investing activities		
Interest received	2,785	1,390
Purchase of property, plant and equipment	(1,673,912)	(2,456,318)
Proceeds from disposal of property, plant and equipment	16,808	-
Net cash used in investing activities	(1,654,319)	(2,454,928)
Net increase in cash and cash equivalents	167,016	770,154
Cash and cash equivalents at 1 January	1,069,475	299,321
Cash and cash equivalents at 31 December	1,236,491	1,069,475

Statement of changes in equity for the year ended 31 December 2005

	Translation reserve HK\$	Accumulated surplus HK\$	Total HK\$
Balance at 1 January 2004	-	963,920	963,920
Profit for the year	-	2,276,646	2,276,646
<hr/>			
Balance at 31 December 2004 and 1 January 2005	-	3,240,566	3,240,566
Translation adjustments	(5,766)	-	(5,766)
Profit for the year	-	467,140	467,140
Balance at 31 December 2005	(5,766)	3,707,706	3,701,940

Notes to the financial statements for the year ended 31 December 2005

1. GENERAL INFORMATION

Crossroads Foundation Limited (formerly named as Crossroads International Limited) (the "company") is a registered non-profit organisation based in Hong Kong. Its principal activity is to take quality goods which people no longer want and to redistribute them to the welfare arenas of Hong Kong, China and elsewhere. It acts as a link between those in great need and those with the desire and resources to supply.

The company conducts its operations under the following registrations :

- Crossroads International
- Crossroads Central Asia
- Global Hand
- P3 International

The financial statements on pages 4 to 17 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") as published by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Hong Kong Companies Ordinance.

The company is a company limited by guarantee incorporated in Hong Kong. The address of the company's registered office is 2 Castle Peak Road, Tuen Mun, HKSAR, China.

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 26 June 2006.

2. ADOPTION OF NEW/ REVISED HKFRS

From 1 January 2005 onwards, the company has adopted the new/ revised standards and interpretations of HKFRS, which are relevant to its operations. This includes the following new, revised and renamed standards :

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 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments : Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments : Recognition and Measurement
HK(SIC) Int-15	Operating Leases – Incentives

2. ADOPTION OF NEW/ REVISED HKFRS (Continued)

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment.

The adoption of the above HKFRSs did not result in significant alternations to the company's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these standards did not result in any changes to the amounts or disclosures in these financial statements.

The company has not early adopted standards or interpretations that have been issued but not yet effective. The adoption of such standards and interpretations will not result in substantial changes to the company's accounting policies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

(b) Foreign currency translation

The financial statements are presented in Hong Kong dollars (HK\$), which is also the functional currency of the company.

Foreign currency transactions are translated into Hong Kong dollars at the rates of exchange ruling at the dates of the transactions. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Exchange differences arising from the translation of the net investment in foreign operation in Asia are taken to the foreign currency translation reserve. This exchange difference will remain a part of equity, only ever being recognized in the income statement should the branch ever be sold in the future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Income and expense recognition

Donations are recognised as income in the period in which they are received or receivable.

Revenue from global handicrafts is recognised when the goods are delivered to the customers.

Interest income is recognised on a time proportion basis by reference to the principal outstanding and the interest rate applicable.

Operating expenses are recognised in the income statement upon utilisation of the services or at the date of origin.

(d) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less depreciation and impairment losses. The gain or loss arising on the disposal is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of them can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Office equipment	20%
Computer equipment	20%
Warehouse equipment	20%
Photographic equipment	20%
Motor vehicle	20%
Leasehold improvements	20%-33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Impairment testing of property, plant and equipment

Property, plant and equipment are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Individual assets or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Given the company is a not-for-profit entity, the return on investment concept being implied through HKAS 36 Impairment of Assets rules becomes less relevant. As such impairment reviews for the property, plant and equipment recorded in the balance sheet has been limited to ensuring sufficient use will be made of those assets over their remaining useful life in the fulfilment of the company's primary operating objectives.

(f) Operating leases

Operating lease payments are recognised as an expense on a straight-line basis. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

(g) Inventories

Inventories comprise purchased goods which are stated on weighted-average-cost basis. At the balance sheet date, inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

(h) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial Assets

The company's financial assets include trade and other receivables.

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Trade and other receivables are provided against when objective evidence is received that the company will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

(j) Financial liabilities

The company's financial liabilities primarily comprise of other payables and amounts due to directors.

Other payables are recognised initially at their nominal value and subsequently measured at amortised cost using the effective interest rate method, less settlement payments.

Amounts due to directors are recognised initially at their nominal value and subsequently measured at amortised cost using the effective interest rate method.

(k) 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company did not use critical accounting estimates and judgements in the preparation of the financial statements.

5. INCOME

	2005 HK\$	2004 HK\$
Revenue/ Turnover		
Donations received	8,665,212	8,373,368
<hr/>		
Other income		
Interest income	2,785	1,390
Cottage craft income	140	7,395
Gain on disposal of property, plant and equipment	2,235	-
Sale of goods - Global handicrafts	170,836	3,969
	<hr/> 175,996	<hr/> 12,754
Total income	<hr/> 8,841,208	<hr/> 8,386,122

6. SURPLUS FOR THE YEAR

	2005 HK\$	2004 HK\$
Surplus for the year is arrived at after charging :		
Auditors' remuneration	-	-
Operating lease rentals in respect of office premises	600,002	618,000

7. TAXATION

No Hong Kong profits tax has been provided in the financial statements as the company is a charitable organisation within the meaning of Section 88 of the Hong Kong Inland Revenue Ordinance ("IRO") and accordingly, it is exempted from payments of all taxes that are levied under the IRO.

8. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$	Office equipment HK\$	Computer equipment HK\$	Motor vehicles HK\$	Warehouse equipment HK\$	Photographic equipment HK\$	Total HK\$
At 1 January 2004							
Cost	3,662,922	41,181	277,963	196,000	516,226	34,500	4,728,792
Accumulated depreciation	(3,539,506)	(25,291)	(200,386)	(78,400)	(274,814)	(20,880)	(4,139,277)
Net book amount	123,416	15,890	77,577	117,600	241,412	13,620	589,515
Year ended 31 December 2004							
Opening net book amount	123,416	15,890	77,577	117,600	241,412	13,620	589,515
Additions	2,262,140	6,550	50,928	-	136,700	-	2,456,318
Depreciation	(483,282)	(6,800)	(46,860)	(39,200)	(127,105)	(4,500)	(707,747)
Closing net book amount	1,902,274	15,640	81,645	78,400	251,007	9,120	2,338,086
At 31 December 2004							
Cost	2,416,410	47,731	328,891	196,000	652,926	34,500	3,676,458
Accumulated depreciation	(514,136)	(32,091)	(247,246)	(117,600)	(401,919)	(25,380)	(1,338,372)
Net book amount	1,902,274	15,640	81,645	78,400	251,007	9,120	2,338,086
Year ended 31 December 2005							
Opening net book amount	1,902,274	15,640	81,645	78,400	251,007	9,120	2,338,086
Additions	1,461,929	11,131	61,888	48,000	83,664	7,300	1,673,912
Disposals	(14,573)	-	-	-	-	-	(14,573)
Depreciation	(495,569)	(4,483)	(16,208)	(36,637)	(47,444)	(3,067)	(603,408)
Closing net book amount	2,854,061	22,288	127,325	89,763	287,227	13,353	3,394,017
At 31 December 2005							
Cost	3,861,531	58,862	390,779	244,000	736,590	41,800	5,333,562
Accumulated depreciation	(1,007,470)	(36,574)	(263,454)	(154,237)	(449,363)	(28,447)	(1,939,545)
Net book amount	2,854,061	22,288	127,325	89,763	287,227	13,353	3,394,017

9. TRADE AND OTHER RECEIVABLES

	2005 HK\$	2004 HK\$
Trade receivables	115,004	386,610
Deposits	152,000	162,600
Prepayments	75,000	50,000
Other receivables	44,566	-
	386,570	599,210

10. OTHER PAYABLES

	2005 HK\$	2004 HK\$
Other payables	238,068	-
Accruals	419,166	268,477
	<u>657,234</u>	<u>268,477</u>

11. AMOUNTS DUE TO DIRECTORS

The amounts due are unsecured, interest-free and have no fixed terms of repayment.

12. SHARE CAPITAL

The company has no share capital and is a company limited by guarantee. At the balance sheet date, the company had five members (2004: five members). Each member of the company has an obligation to contribute to the assets of the company in the event of it being wound up, as may be required, for an amount not exceeding one hundred dollars.

13. INVENTORIES

	2005 HK\$	2004 HK\$
Finished goods	84,657	7,018
	<u>84,657</u>	<u>7,018</u>

14. OPERATING LEASE COMMITMENTS

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable by the company as follows :

	2005 HK\$	2004 HK\$
Within one year	600,000	600,001
In the second to fifth years	1,125,000	1,725,001
	1,725,000	2,325,002

The company leases its office premises under operating leases. The leases run for an initial period of one to five years, with an option to renew the lease terms at the expiry date or at dates mutually agreed between the company and the respective landlords. None of the leases include contingent rentals.

15. DIRECTORS' REMUNERATION

Remuneration of the directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows :

	2005 HK\$	2004 HK\$
Fees	NIL	NIL
Other emoluments	NIL	NIL

16. FINANCIAL RISK MANAGEMENT

The company does not have written financial risk management policies and guidelines, primarily due to the simplicity of the financial structure of the business. However, the board of directors meets periodically to analyse and formulate measures to manage the company's exposure to market risk, including principally changes in interest rates and currency exchange rates. Generally, the company employs a conservative strategy regarding its risk management. As the directors of the company consider that the company's exposure to market risk is kept at a minimum level, the company has not used any derivatives or other instruments for hedging purposes. The company does not hold or issue derivative financial instruments for trading purposes.

16. FINANCIAL RISK MANAGEMENT (Continued)

The financial assets of the company comprise primarily trade and other receivables and cash and bank balances. The financial liabilities of the company comprise primarily other payables and amounts due to directors.

(a) Foreign currency risk

The foreign currency risk is limited to the company because transactions are predominately in Hong Kong dollar.

(b) Credit risk

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

There is no concentration of credit risk with respect to trade receivables, as the company has a large number of supporters making donation.

(c) Interest rate risk

The interest rate risk is limited to the cash and cash equivalents held with banking institutions. All cash is immediately accessible and as such earn low short term trading account interest rate returns.

(d) Fair value

The fair value of the company's financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.