

DID AV CONCEPT LTD SHORTCHANGE THE TAXMAN ?

The Commissioner of Inland Revenue for the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) has slapped a Writ on a wholly owned subsidiary of publicly listed AV Concept Holdings Ltd (Code: 595, Main Board, The Stock Exchange of Hongkong Ltd).

The Commissioner is seeking \$HK527,503 from AV Concept Ltd in respect of Profits of this manufacturer of electronic products for the 1999-2000 Financial Year and the 2000-2001 Financial Year.

According to the Commissioner, AV Concept Ltd has failed to pay its tax on the due date: January 16, 2001.

According to the Annual Report of AV Concept Holdings Ltd, for the Financial Year, ended March 31, 2000, the Provision for HKSAR taxes with regard to Profits for that Year was \$HK2,339,000.

For the 1999 Year, it is shown in this report that tax, due to the HKSAR tax department, was \$HK1,003,000.

The Profit and Loss Account of AV Concept Holdings Ltd shows that this publicly listed company produced Net Profits Attributable to Shareholders of \$HK22.34 million for the 2000 Year, and Net Profits Attributable to Shareholders of about \$HK8.08 million for the 1999 Year.

The composition of the 2000 Year's Profits, however, included a one-off gain of about \$HK6.39 million, being the '*Gain on Disposal of a Property*'. (Page 30, the 2000 Annual Report of AV Concept Holdings Ltd)

There was no such category of gain in the 1999 Financial Year.

There is no tax in the HKSAR in respect of Capital Gains so that the assessable tax for the 2000 Year had to be exclusive of the \$HK6.39-million gain from the sale of a piece of property.

The Profits from Operating Activities, therefore, were somewhere in the neighbourhood of \$HK37.06 million, minus the \$HK6.39 million Capital Gain, bringing down the assessable profits to about \$HK30.67 million.

There was a charge of nearly \$HK12 million in the 2000 Financial Year in respect of financing costs so that, subtracting that figure from the \$HK30.67 million, being the Profits from Operating Activities, leaves one with a taxable profit, one would think, of about \$HK18.67 million.

At a tax rate of 16 percent, the Commissioner, one is apt to reason, should be entitled to about \$HK2.99 million in respect of the 2000 Financial Year, at most.

The tax, payable to the Commissioner, as far as the 2000 Annual Report is concerned, is about \$HK2.75 million - not too far off from TARGET's calculation.

However, it would appear that the HKSAR Commissioner of Inland Revenue is claiming that he has been short-changed to the extent of \$HK527,503, that figure being 2 Financial Years' assessable profits, with the 2000-2001 Year's tax charge, being a provisional assessment for AV Concept Ltd.

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