

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chan Chung Yee, Hubert (*Chairman*)
Chan Chung Yin, Roy
Chan Man Min
Yeh Yui Fong
Tsui Hon Wing
Chan Ming Him, Denny
Wu Kwok Lam *CPA, FCCA*
Chu Chor Lup*
Chiu Ngar Wing *FCCA, ACA, CPA (Practising)**
Leung Tai Wai, David*

* *Independent non-executive director*

COMPANY SECRETARY

Wu Kwok Lam *CPA, FCCA*

QUALIFIED ACCOUNTANT

Wu Kwok Lam *CPA, FCCA*

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman, Cayman Islands
British West Indies

PRINCIPAL OFFICE

25/F., Oxford House, TaiKoo Place,
979 King's Road, Quarry Bay,
Hong Kong

PRINCIPAL REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
P.O. Box 513 GT
2nd Floor, Strathvale House
North Church Street, George Town
George Town,
Grand Cayman, Cayman Islands
British West Indies

AUDITORS

Li, Tang, Chen & Co
Certified Public Accountants (Practising)

HONG KONG BRANCH REGISTRAR

Pilare Limited
10th Floor, Sun Hung Kai Center
30 Harbour Road
Hong Kong

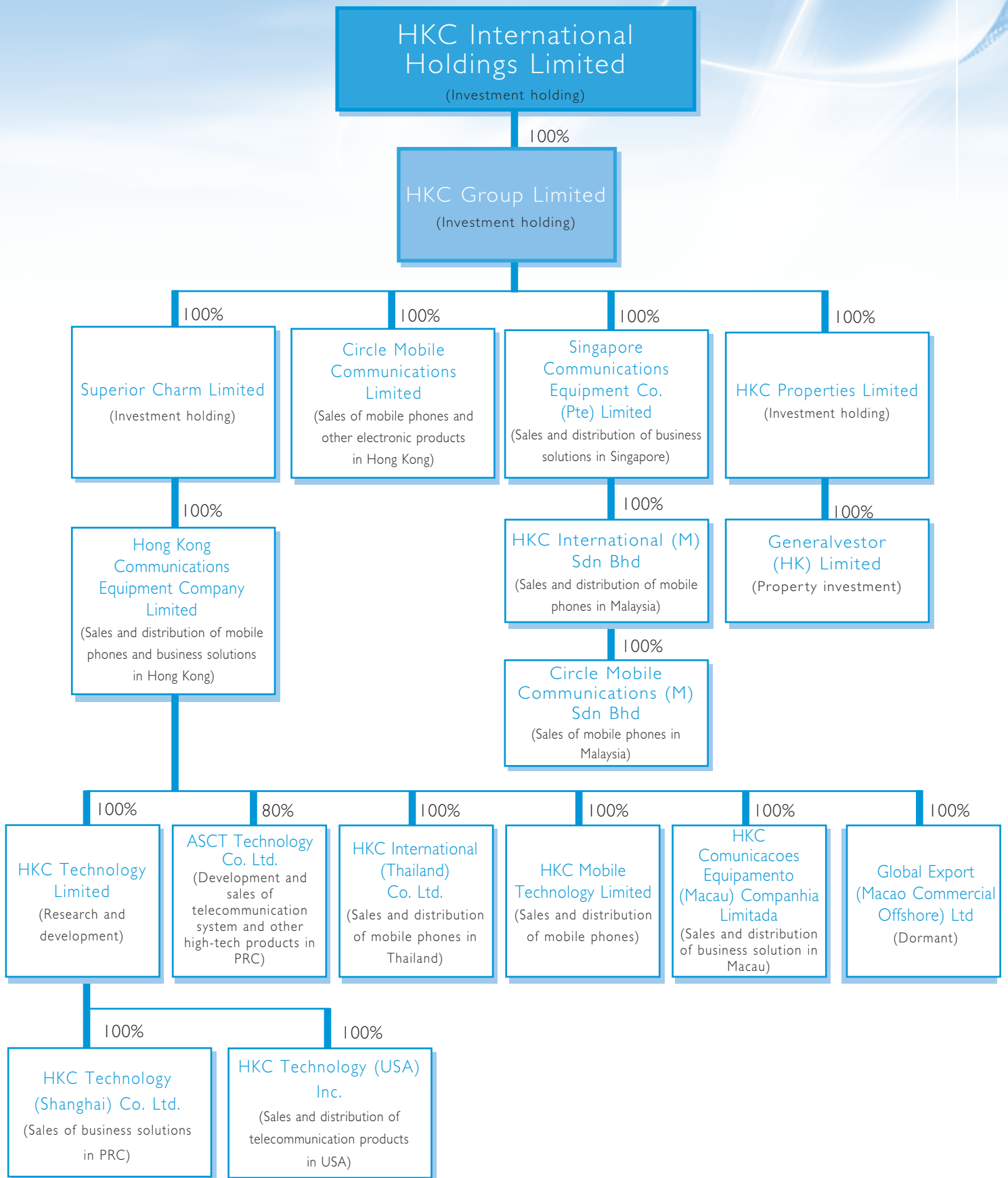
PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central
Hong Kong

Wing Hang Bank, Limited
161 Queen's Road Central
Hong Kong

STOCK CODE

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MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31st March, 2006, the turnover of HKC International Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group") increased by 3% to HK\$1,002 million (2005: HK\$974 million) and net profit significantly increased by 5.5 times from HK\$11 million to HK\$72 million in comparison with the last year. The drastic increase in profit was due to the disposal of certain properties recording a profit of HK\$69 million (2005: Nil).

The gross profit margin was improved to 11.4% as compared with 10.6% reported last year. The operation of new subsidiaries and provision for impairment of trade debtors during the year led to the increases in selling and distribution expenses and administrative and other operating expenses.

SALES OF MOBILE PHONES

The sale of mobile phones continued to be the Group's major core business for the year. The turnover grew to HK\$916 million (2005: HK\$899 million). However, due to the adverse market situations faced by the overseas subsidiaries of the Company and provision for impairment of trade debtors, the segment profit decreased to HK\$9.8 million (2005: HK\$22 million).

SALES OF BUSINESS SOLUTIONS

During the year under review, the turnover was HK\$86 million, an improvement of 17% from last year (2005: HK\$74 million). The division suffered loss of HK\$2.6 million compared with the profit of HK\$0.7 million last year. The downturn in performance was due to substantial resources being input into the research and development of network telephone system, Radio Frequency Identification ("RFID") project and software development.

PROPERTY INVESTMENT

Gross rental income generated from the investment properties decreased by 63% to HK\$1.3 million (2005: HK\$ 3.5 million) due to sales of certain properties during the year while the loss decreased from HK\$1.3 million to HK\$0.1 million when compared with last year.

PROSPECTS

The sales of mobile phones will continue to be the Group's major core business. Going forward, the Group will diversify its business into product development, RFID projects and software development through its subsidiaries locally and regionally.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a strong financial position. As at 31st March, 2006, the Group's bank balances and cash amounted to approximately HK\$66 million (2005: HK\$41 million) while the bank borrowing was HK\$28 million (2005: HK\$22 million). The long term bank borrowing was denominated in Hong Kong dollars. The gearing ratio was 11% (2005: 11%) which is expressed as a percentage of total borrowings to shareholders' funds.

As substantial portion of transactions are dominated in Hong Kong Dollar, the Group's exposure to exchange fluctuation is low.

CAPITAL EXPENDITURE

The Group invested HK\$82 million in investment properties, leasehold land and property, plant and equipment during the year. This was financed from internal resources and a HK\$30 million mortgage loan.

EMPLOYEES

As at 31st March, 2006, the total number of employees of the Group was approximately 380 (2005: 300) and the aggregate remuneration of employees (excluding directors' emoluments) amounted to HK\$49 million (2005: HK\$45 million). The remuneration and bonus packages of the employees are based on the individual merits and performance and are reviewed at least annually. There is a share option scheme in place designed to award employees for their performance at the discretion of the directors. The Group maintains a good relationship with its employees.

PLEDGE OF ASSETS

As at 31st March, 2006, the Company's general banking facilities were secured by a bank deposit of HK\$8 million (2005: Nil) and first legal charge on certain leasehold land and buildings and investment properties with aggregate carrying amounts of HK\$77 million (2005: HK\$59 million (as restated)).

CONTINGENT LIABILITIES

As at 31st March, 2006, the Company had provided corporate guarantees of HK\$74 million (2005: HK\$87 million) to secure banking facilities granted to the subsidiary companies.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 6th September, 2006 to Friday, 8th September, 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, should be lodged with the Company's share registrars in Hong Kong, Pilare Limited, 10th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 5th September, 2006.

APPRECIATION

The board of directors of the Company (the "Board") would like to extend its sincere gratitude to the Company's shareholders, business counterparts and all management and the staff members of the Group for their contribution and continued support during the year.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Board considers that good corporate governance is central to safeguarding the interests of the shareholders and enhancing the performance of the Group. The Company complied throughout the year ended 31st March, 2006 with the code provisions ("Code Provisions") set out in the Code on Corporate Governance Practices ("Code") contained in Appendix I4 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), except for Code Provision A.2.1 which stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company does not segregate the roles of Chairman and Chief Executive Officer and Mr. Chan Chung Yee, Hubert currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD OF DIRECTORS

The Board is responsible for formulating business strategies, and monitoring the performance of the business of the Group. Other than the daily operational decisions which are delegated to the members of the senior management of the Group, most of the corporate decisions of the Company are made by the Board.

The Board comprises seven executive directors namely Mr. Chan Chung Yee, Hubert (Chairman), Mr. Chan Chung Yin, Roy, Mr. Chan Man Min, Mr. Chan Ming Him, Denny, Mr. Tsui Hon Wing, Mr. Wu Kwok Lam and Mr. Yeh Yui Fong, and three independent non-executive directors, namely Mr. Chiu Ngar Wing, Dr. Chu Chor Lup and Mr. Leung Tai Wai, David. Mr. Chiu Ngar Wing possesses appropriate professional accounting qualifications and financial management expertise. Mr. Chan Chung Yee, Hubert, the Chairman of the Board, is the elder brother of Mr. Chan Chung Yin, Roy. Mr. Chan Man Min is the father of Mr. Chan Ming Him, Denny. Save as disclosed, there is no relationship among the members of the Board.

The Company has received from each of its independent non-executive directors a written confirmation of his independence and the Company considers each of them to be independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

The Board held eighteen meetings during the year and the attendance records of individual directors are as follows:

Executive directors:	Number of meetings attended
Chan Chung Yee, Hubert	18/18
Chan Chung Yin, Roy	15/18
Chan Man Min	0/18
Chan Ming Him, Denny	12/18
Tsui Hon Wing	15/18
Wu Kwok Lam	18/18
Yeh Yui Fong	13/18

Independent non-executive directors:	
Chiu Ngar Wing	2/18
Chu Chor Lup	2/18
Leung Tai Wai, David	0/18

TERMS OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive directors has entered into a letter of appointment with the Company for an initial term of one year. The appointment will be automatically renewed for successive term of one year unless terminated by either party by not less than three months notice in writing prior to the expiry of the then current term. All the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

REMUNERATION COMMITTEE

To comply with the Code, a remuneration committee was established on 1st April, 2005 with specific written terms of reference which were prepared in accordance with the Code Provisions and deal clearly with its authorities and duties. The members of the remuneration committee are Dr. Chu Chor Lup, Mr. Chiu Ngar Wing and Mr. Wu Kwok Lam. Dr. Chu Chor Lup and Mr. Chiu Ngar Wing are independent non-executive directors.

The remuneration committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management, determining the specific remuneration packages of all executive directors and senior management of the Group and reviewing and approving the compensation payable to executive directors and senior management of the Group in connection with any loss or termination of their office or appointment. Two meetings of the remuneration committee had been held since its establishment during which the members of the remuneration committee had reviewed the remuneration policy of the Company and determined remuneration of directors.

CORPORATE GOVERNANCE REPORT

Name of members	Number of meetings attended
Chiu Ngar Wing – <i>Chairman</i>	2/2
Chu Chor Lup	2/2
Wu Kwok Lam	2/2

AUDIT COMMITTEE

The Company established an audit committee on 12th September, 2001 with written terms of reference in compliance with the Code of Best Practice as set out in the then effective Appendix 14 to the Listing Rules. Pursuant to a resolution passed by the Board on 1st April, 2005, a new set of terms of reference of the audit committee which were prepared with reference to the Code Provisions were adopted in replacement of the original terms of reference and the new terms of reference of the audit committee became effective on 1st April, 2005. The Company's audit committee comprises three independent non-executive directors namely, Mr. Chiu Ngar Wing, Dr. Chu Chor Lup and Mr. Leung Tai Wai, David. A total of two meetings of the audit committee were in the year under review and the individual attendance of members are as follows:

Name of members	Number of meetings attended
Chiu Ngar Wing – <i>Chairman</i>	2/2
Chu Chor Lup	2/2
Leung Tai Wai, David	1/2

The audit committee has reviewed with the management the accounting policies adopted by the Group and discussed internal control and financial reporting matters, including the review of the audited financial statements together with the Company's external auditors.

ACCOUNTABILITY AND INTERNAL CONTROL

The directors acknowledge their responsibility for preparing all information and representation contained in the consolidated financial statements of the Company for the year under review. As at 31st March, 2006, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the ability of the Company to continue as a going concern basis.

The statement of the external auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Auditor's Report on page 23 of the annual report of the Company for the year ended 31st March, 2006. The remuneration paid to the external auditors of the Company in respect of audit services and tax consulting services for the year ended 31st March, 2006 amounted to HK\$350,000 and HK\$26,000 respectively.

The directors have conducted an annual review of the effectiveness of the Group's internal control system. The review includes financial, operational and compliance control and risk management function.

DIRECTORS' SECURITIES TRANSACTION

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding director' securities transactions.

Each of the director of the Company confirmed, following specific enquiry by the Company, that he complied with the required standard as set in Model Code throughout the year ended 31st March, 2006.

COMMUNICATION WITH SHAREHOLDERS

The Board recognised the importance of maintaining good communication with the shareholders of the Company. Information in relation to the Group is disseminated to shareholders in a timely manner through a number of channels, which include publication of interim reports and annual reports, announcements and circulars. The developments of each line of the Group's business are presented under "Management discussion and analysis" section of the interim reports and annual reports to enable the shareholders to have a better understanding of the Group's business activities.

The Company welcomes shareholders to attend the annual general meetings and express their view. The Chairman of the Board as well as other Board members together with the external auditors are available to answer shareholders' questions.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. CHAN Chung Yee, Hubert, aged 46, joined the Group in 1984 and is responsible for the formulation of corporate strategies and business development of the Group. Mr. Chan is a director of each of the Company's subsidiaries. He has over 15 years of experience in the trading and distribution of telecommunications equipment. Mr. Chan obtained a Bachelor's Degree in Industrial Engineering from the University of Hong Kong and an Executive Master of Business Administration from the Hong Kong University of Science and Technology. Mr. Chan is also very active in promoting the telecommunications industry in Hong Kong. He is currently the Chairman of the Communications Association of Hong Kong (previously known as Internet & Telecom Association of Hong Kong).

Mr. CHAN Chung Yin, Roy, aged 44, the younger brother of Mr. Chan Chung Yee, Hubert, has been an executive director of the group since he joined in 1989. He graduated from the University of Toronto, Canada with a Bachelor's Degree in Computer Science and has over 15 years of experience in the telecommunications industry.

Mr. WU Kwok Lam , aged 44, joined the Group in 1989 and is currently the General Manager and Chief Financial Officer of the Group. He earned his MBA degree from Murdoch University, Australia and has over 15 years of extensive experience in the accounting and finance field. He is also an associate member of the Hong Kong Institute of Certified Public Accountant and a fellow member of the Association of Chartered Certified Accountants. Mr. Wu is also the company secretary and qualified accountant of the Company.

Mr. CHAN Man Min, aged 73, joined the Group in 1971 with over 30 years of extensive experience in the telecommunications industry. He is the father of Mr. Chan Ming Him, Denny.

Mr. CHAN Ming Him, Denny, aged 47, joined the Group in 1999 with over 15 years of experience in the telecommunications industry in China. He graduated from McMaster University, Canada with a Master's Degree in Engineering. He is the son of Mr. Chan Man Min.

Mr. TSUI Hon Wing, aged 59, joined the Group in 1987 and possesses over 30 years of extensive experience in the sales and management of intercom, keyphone and closed-circuit television systems.

Mr. YEH Yui Fong, aged 72, is responsible for overseeing the business planning and operation in the Singapore subsidiary, Singapore Communications Equipment Co (Pte) Ltd, of the Company. He has been an executive director of the Singapore subsidiary since 1981 and he is also a director of HKC International (M) SDN BHD and Circle Mobile Communications (M) SDN BHD, both being the subsidiaries of the Company. Mr. Yeh has over 20 years of experience in the telecommunications industry. He has attained an MBA Degree from the Chinese University of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHIU Ngar Wing, aged 52, is a practising accountant. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. He is a partner of T. C. Ng & Co, Certified Public Accountants and has been practising in the firm for about 20 years.

Dr. CHU Chor Lup, aged 53, is a practising doctor. He is a fellow of Hong Kong College of Physician and Hong Kong Academy of Medicine and Royal College of Physician (Glasgow). He has been the member of the Hospital Government Committee since 1997.

Mr. LEUNG Tai Wai, David, aged 50, is the president of Zestra Asia Limited. Mr. Leung holds a Degree in Business Administration and a Master's Degree in Marketing.

SENIOR MANAGEMENT

Mr. KWONG Chiu Fan , Kevin, aged 41, joined the Group in 2001 and has over 15 years of experience in technical projects, product development and management. He is also currently the Director of HKC Technology Limited, one of the subsidiaries of the Group. Prior to joining the Group, he held various positions in leading technology companies including Telecommunications Technology Centre, Zi Corporation, IBM Global Services Australia and Hong Kong Productivity Council. Mr. Kwong holds a Master of Science Degree from Imperial College of the University of London and a Bachelor's Degree in Engineering from the Hong Kong Polytechnic University. He is also a Chartered Engineer and a member of the Hong Kong Computer Society, the Hong Kong Institution of Engineers and the Institution of Electrical Engineers.

Mr. CHOI Chun Yik, aged 45, joined the Group in 1990 with over 15 years of experience in the telecommunications industry. He is responsible for overseeing the operations of sales, customer services and technical services departments in the office telephone division. He has attained an MBA Degree from Murdoch University, Australia.

Mr. WONG Derrick, aged 51, is the general manager of Malaysia's subsidiary. Mr. Wong holds a diploma of Electrical Engineering and a graduate diploma in marketing management. Mr. Wong joined the Group in 1981, and has over 20 years of experience in the telecommunication industry. He is the founding member of the Association of Telecommunications Industry of Singapore (ATIS), and was the President of ATIS from 1997 to 1999.

Mr. LAU Chuen Kee, aged 44, is the general manager of Shanghai's subsidiary of the Company. Mr. Lau joined the Group in 1998 and is responsible for exploring business opportunities in China. He has over 15 years' experience in the telecommunications industry of China.

Mr. SO Kin Kai, Morris, aged 46, is the general manager of mobile division. Mr. So has over 10 years of experience with mobile network operators and mobile phone vendor in distribution channel management and development. He has international working experience in Toronto, Singapore and Beijing. Prior to his joining with the Group, he held various positions in Nokia, overseeing the channel development of APAC and Greater China.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. HUI Koon Wai, Bernard, aged 40, is the director of distribution operation in mobile division. Mr. Hui joined the group in 1998, and is responsible for overseeing the group's distribution and operation of sales in the mobile division. Prior to joining the Group, Mr. Hui has extensive sales experience through working for Gilman & Company Limited and Hutchison Telecommunications (Hong Kong) Limited (now known as HTIL). He also has over 12 years of experience in mobile business.

Mr. LAM Kwok Hung, Charles, aged 39, is the general manager of computer division. Mr. Lam joined the group in 2005 and has over 15 years of experience in the Information Technology industry mainly responsible for the infrastructure of computer networking system and applications development. He also has experience to develop the business as Internet Service Provider and is one of the pioneers in the e-Commerce market at the new generation. Mr. Lam holds an MBA Degree from Columbia Southern University.

Mr. NG Chi Hoi, Samuel, aged 48, is the general manager of Singapore Communications Equipment Co., (Pte) Limited. Mr. Ng joined the Group in 1993 and has over 25 years of experience in the telecommunications industry. He holds a Bachelor's Degree in Computing and Information Systems from University of London.

The directors have pleasure in presenting their annual report and the audited financial statements of the group and the company for the year ended 31st March, 2006.

PRINCIPAL ACTIVITIES

The company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 43 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the group for the year ended 31st March, 2006 are set out in the consolidated income statement on page 24.

During the year, the group paid a final dividend of HK\$0.01 per ordinary share for the year of 2005 and a special dividend of HK\$0.04 per ordinary share for the year 2006, totalling HK\$23,098,000.

The directors now recommend the payment of a final dividend of HK\$0.01 per ordinary share to the shareholders of the company whose names appear on the register of members on 8th September, 2006.

PROPERTY, PLANT AND EQUIPMENT

During the year, the group spent HK\$8,563,000 on property, plant and equipment. The group also disposed of certain of its property, plant and equipment with aggregate carrying amount of HK\$55,723,000.

Details of these and other movements in property, plant and equipment of the group during the year are set out in note 17 to the financial statements.

Particulars of the leasehold land and buildings of the group as at 31st March, 2006 are set out on page 97.

INVESTMENT PROPERTIES

During the year, the group spent HK\$10,050,000 on investment properties. The group also disposed of certain of its investment properties with aggregate carrying value of HK\$11,531,000.

Details of these and other movements in investment properties of the group during the year are set out in note 18 to the financial statements.

Particulars of the investment properties of the group as at 31st March, 2006 are set out on page 96.

SHARE CAPITAL

Details of the movements in share capital of the company during the year are set out in note 34 to the financial statements.

DIRECTORS' REPORT

BORROWINGS

Particulars of the borrowings of the group at the balance sheet date are set out in note 32 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the company's Articles of Association or the laws of the Cayman Islands.

DONATIONS

Donations made by the group during the year amounted to HK\$495,300.

DIRECTORS AND SERVICE CONTRACTS

The directors of the company during the year and up to the date of this report were:

Executive directors:

Chan Chung Yee, Hubert – *Chairman*
Chan Chung Yin, Roy
Chan Man Min
Chan Ming Him, Denny
Tsui Hon Wing
Wu Kwok Lam
Yeh Yui Fong

Independent non-executive directors:

Chiu Ngar Wing
Chu Chor Lup
Leung Tai Wai, David

In accordance with article 108 of the company's Articles of Association, Messrs. Chan Chung Yee, Hubert, Chan Man Min and Yeh Yui Fong will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors has entered into a service contract with the company for an initial term of three years commencing from 12th September, 2001, and is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party to the other.

DIRECTORS AND SERVICE CONTRACTS — continued

Each of the independent non-executive directors has entered into a letter of appointment with the company for an initial term of one year. The appointment will be automatically renewed for successive term of one year unless terminated by either party by not less than three month's notice in writing prior to the expiry of the then current term. All the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the company in accordance with the articles of association of the company.

None of the directors of the company has entered into a service contract with the company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Other than the interests disclosed under the section headed "Connected transactions" below and disclosed in note 42 to the financial statements, no other contracts of significance to which the company or any of its subsidiaries 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.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The company has received from each of its current independent non-executive directors an annual confirmation of his independence and the company considers each of them to be independent based on the guidelines set out in Rule 3.13 of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31st March, 2006, the interests and short positions of the directors and chief executive of the company in shares, underlying shares or debentures of the company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or was deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the company and the Stock Exchange were as follows:

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS — continued

Name of director	The Company/ associated corporation	Capacity/nature of interest	Number and class of securities <i>(note 1)</i>	Percentage of interests in the issued share capital at 31st March, 2006
Chan Chung Yee, Hubert	The Company	Founder of a trust	231,660,575 ordinary shares (each a "Share") of HK\$0.01 each (L) <i>(Note 2)</i>	50.14%
	The Company	Beneficial owner	8,600,000 Shares (L) <i>(Note 3)</i>	1.86%
	Matrix World Group Limited	Founder of a trust	1 share of US\$1.00 each (L)	100%
Chan Chung Yin, Roy	The Company	Founder of a trust	68,417,400 Shares (L) <i>(Note 4)</i>	14.81%
	The Company	Beneficial owner	2,000,000 Shares (L) <i>(Note 5)</i>	0.43%
	Star Global International Limited	Founder of a trust	1 share of US\$1.00 each (L)	100%
Chan Man Min	The Company	Interest of controlled corporation	24,709,650 Shares (L) <i>(Note 6)</i>	5.35%
	The Company	Beneficial owner	2,000,000 Shares (L) <i>(Note 7)</i>	0.43%
Yeh Yui Fong	The Company	Interest of controlled corporation	2,681,550 Shares (L) <i>(Note 8)</i>	0.58%
	The Company	Beneficial owner	2,000,000 Shares (L) <i>(Note 9)</i>	0.43%
Tsui Hon Wing	The Company	Beneficial owner	3,939,200 Shares (L) <i>(Note 10)</i>	0.85%
Chan Ming Him, Denny	The Company	Beneficial owner	2,000,000 Shares (L) <i>(Note 11)</i>	0.43%
Wu Kwok Lam	The Company	Beneficial owner	1,000,000 Shares (L) <i>(Note 12)</i>	0.22%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS — continued

Notes:

1. The Letter "L" represents the director's or the chief executive's long position in the Shares or underlying Shares of the company or its associated corporations.
2. Among these Shares, 8,484,848 shares were held by Light Emotion Limited, a company wholly owned by Matrix World Group Limited and 223,175,727 Shares were held by Matrix World Group Limited, a company wholly owned by Trustcorp Limited as the trustee of a discretionary trust of which Mr. Chan Chung Yee, Hubert is the founder (within the meaning ascribed to it under Part XV of the SFO). By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Matrix World Group Limited was deemed to be interested in the Shares held by Light Emotion Limited and Mr. Chan Chung Yee Hubert was deemed to be interested in the Shares in which Matrix World Group Limited was interested.
3. Interests in these Shares comprise 4,300,000 Shares registered in the name of Mr. Chan Chung Yee, Hubert and 4,300,000 Shares to be allocated and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
4. These Shares were held by Star Global International Limited, a company wholly owned by Trustcorp Limited as the trustee for a discretionary trust of which Mr. Chan Chung Yin, Roy is the founder (within the meaning ascribed to it under Part XV of the SFO). By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Chan Chung Yin, Roy was deemed to be interested in the Shares held by Star Global International Limited.
5. These represent the interests of Mr. Chan Chung Yin, Roy in 2,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
6. These Shares were held by Ocean Hope Group Limited, a company wholly owned by Mr. Chan Man Min. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Chan Man Min was deemed to be interested in the Shares held by Ocean Hope Group Limited.
7. Interests in these Shares comprise 1,000,000 Shares registered in the name of Mr. Chan Man Min and 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
8. These Shares were held by CIT Company Limited, a company wholly owned by Mr. Yeh Yui Fong and his wife in equal share. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SFO, Mr. Yeh Yui Fong was deemed to be interested in the Shares held by CIT Company Limited.
9. Interests in these Shares comprise 1,000,000 Shares registered in the name of Mr. Yeh Yui Fong and 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the Company.
10. Interests in these Shares comprise 2,939,200 Shares registered in the name of Mr. Tsui Hon Wing and 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
11. Interests in these Shares comprise 1,000,000 Shares registered in the name of Mr. Chan Ming Him, Denny and 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.
12. These represent the interests of Mr. Wu Kwok Lam in 1,000,000 Shares to be allotted and issued to him upon the exercise in full of the outstanding option granted to him on 17th June, 2005 under the share option scheme of the company.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS — continued

Save as disclosed above, as at 31st March, 2006, none of the directors and chief executive of the company had any interest and short position in shares, underlying shares and debentures of the company or its associated corporations (within the meaning of the SFO) which were required to be notified to the company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he has taken or was deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the company referred to therein, or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from those disclosed under the section heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the company and its associated corporations" above and under the section headed "share options" below, at no time during the year under review or up to the date of this report were there any rights to acquire shares in or debentures of the company granted to any director or their respective spouse or minor children, or were any such rights exercised by them. None of the company or any of its subsidiaries was a party to any arrangement to enable the directors or their respective spouse or minor children to acquire such rights in any other body corporate.

SHARE OPTIONS

Particulars of the company's share option scheme are set out in note 35 to the financial statements.

As at 31st March, 2006, the number of shares in respect of which options had been granted and yet to be exercised under the company's share option scheme was 22,864,000, representing approximately 5% of the share capital of the company in issue as at that date.

During the year, the directors have estimated the value of share options granted by using the Black-Scholes Option Pricing Model as at the dates of grant of the options.

The Black-Scholes Option Pricing Model is a generally accepted method for valuing share options. The measurement dates used in the valuation calculations were the dates on which the options were granted or approved.

The value of an option varies with different variables of certain subjective assumptions. Any changes to the variables used may materially affect the estimation of the fair value of an option.

SHARE OPTIONS

The following table discloses movements in the Company's share options during the year:

Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding		Granted during the year	Exercised during the year	Cancelled during the year	Outstanding	
			at 1st April, 2005					at 31st March, 2006	
Directors									
Chan Chung Yee, Hubert	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	4,300,000	–	–	–	4,300,000
Chan Chung Yin, Roy	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	2,000,000	–	–	–	2,000,000
Chan Man Min	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	–	1,000,000
Chan Ming Him, Denny	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	–	1,000,000
Tsui Hon Wing	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	–	1,000,000
Wu Kwok Lam	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	–	1,000,000
Yeh Yui Fong	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	–	1,000,000
				–	11,300,000	–	–	–	11,300,000
Employees									
	4.5.2004	4.11.2004 – 3.5.2006	0.196	3,860,000	–	(1,296,000)	–	–	2,564,000
	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	11,100,000	–	(2,100,000)	–	9,000,000
				3,860,000	11,100,000	(1,296,000)	(2,100,000)	–	11,564,000
				<u>3,860,000</u>	<u>22,400,000</u>	<u>(1,296,000)</u>	<u>(2,100,000)</u>	–	<u>22,864,000</u>

CONNECTED TRANSACTIONS

During the year, the group had certain transactions with related parties, details of which are set out in note 42 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the group were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2006, the aggregate turnover attributable to the group's five largest customers accounted for approximately 52% by value of the group's total turnover and the sales attributable to the group's largest customer was approximately 15% of the total sales. The aggregate purchases attributable to the group's five largest suppliers accounted for approximately 96% by value of the group's total purchases and the purchases attributable to the group's largest supplier was approximately 87% by value of the total purchases.

None of the directors of the company, any of their associates or any shareholders (which to the best knowledge of the directors owns more than 5% of the company's share capital) has any beneficial interest in any of the group's five largest customers or five largest suppliers.

DIRECTORS' REPORT

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption of the company's listed shares by the company or any of its subsidiaries during the year.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

So far as the directors are aware, as at 31st March, 2006, the following persons, other than a director or chief executive of the company, had an interest or a short position in the shares and underlying shares in the company as recorded in the register required to be kept under section 336 of the SFO:

Name	Number of ordinary shares (each a "Share") of HK\$0.01 each (Note 1)	Capacity/nature of interest	Percentage of interests in the issued share capital as at 31st March, 2006
Matrix World Group Limited (Note 2)	223,175,727(L)	Beneficial owner	48.30%
	8,484,848(L)	Interest of controlled corporation	1.84%
Star Global International Limited (Note 3)	68,417,400(L)	Beneficial owner	14.81%
Trustcorp Limited (Notes 2 and 3)	300,077,975(L)	Trustee	64.94%
Newcorp Ltd. (Note 4)	300,077,975 (L)	Interest of controlled corporation	64.94%
Newcorp Holdings Limited (Note 4)	300,077,975 (L)	Interest of controlled corporation	64.94%
David Henry Christopher Hill (Note 5)	300,077,975 (L)	Interest of controlled corporation	64.94%
Rebecca Ann Hill (Note 6)	300,077,975 (L)	Interest of spouse	64.94%
David William Roberts (Note 5)	300,077,975 (L)	Interest of controlled corporation	64.94%
Ocean Hope Group Limited (Note 7)	24,709,650(L)	Beneficial owner	5.35%

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO — continued

Notes:

1. The letter "L" represents the person's long position in the Shares.
2. Among these Shares, 8,484,848 Shares were held by Light Emotion Limited, a company wholly owned by Matrix World Group Limited and 223,175,727 Shares were held by Matrix World Group Limited, a company wholly owned by Trustcorp Limited as the trustee of a discretionary trust of which Mr. Chan Chung Yee, Hubert is the founder (within the meaning ascribed to it under Part XV of the SFO). By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Matrix World Group Limited was deemed to be interested in the Shares held by Light Emotion Limited and Trustcorp Limited was deemed to be interested in all the Shares in which Matrix World Group Limited was interested.
3. Star Global International Limited was a company wholly owned by Trustcorp Limited as the trustee of a discretionary trust of which Mr. Chan Chung Yin, Roy was the founder (within the meaning ascribed to it under Part XV of the SFO). By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Trustcorp Limited was deemed to be interested in all the Shares held by Star Global International Limited.
4. Trustcorp Limited was a company wholly-owned by Newcorp Ltd., which was in turn wholly-owned by Newcorp Holdings Limited. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Newcorp Ltd. and Newcorp Holdings Limited were deemed to be interested in all the Shares in which Trustcorp Limited was interested.
5. Newcorp Holdings Limited was owned as to 35% by Mr. David Henry Christopher Hill, 35% by Mr. David William Roberts and 30% by Mr. Michael J. Kenney-Herbert. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, each of Mr. David Henry Christopher Hill and Mr. David William Roberts was deemed to be interested in all the Shares in which Newcorp Holdings Limited was interested.
6. Mrs. Rebecca Ann Hill is the wife of Mr David Henry Christopher Hill. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Mrs. Rebecca Ann Hill is deemed to be interested in all the Shares in which Mr. David Henry Christopher Hill was interested.
7. Ocean Hope Group Limited was a company wholly owned by Mr. Chan Man Min.

Save as disclosed above, as at 31st March, 2006, no person, other than a director or chief executive of the company, had an interest or a short position in the shares and underlying Shares of the company as recorded in the register required to be kept under section 336 of the SFO.

CORPORATE GOVERNANCE

The company is committed to maintain a high standard of corporate governance practices. Information on the corporate governance practices adopted by the company is set out in the "Corporate Governance Report" on pages 6 to 8.

SUFFICIENCY OF PUBLIC FLOAT

Based on information publicly available to the company and within the knowledge of the directors as at the date of this annual report, the company has maintained the prescribed public float under the listing rules.

DIRECTORS' REPORT

AUDITORS

Li, Tang, Chen & Co. will retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of Li, Tang, Chen & Co. as auditors of the company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors

Chan Chung Yee, Hubert

Chairman

Hong Kong, 21st July, 2006



李湯陳會計師事務所

LI, TANG, CHEN & CO.

CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

TO THE SHAREHOLDERS OF HKC INTERNATIONAL HOLDINGS LIMITED*(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 24 to 94 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The company's directors are responsible for the preparation of 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, 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 on 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, 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 affairs of the company and of the group as at 31st March, 2006 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Li, Tang, Chen & Co.*Certified Public Accountants (Practising)*

Hong Kong, 21st July, 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (restated)
TURNOVER	7	1,002,490	974,056
Cost of sales		(888,526)	(871,275)
GROSS PROFIT		113,964	102,781
Other income and gains	8	6,768	1,673
Gain on disposal of leasehold land and buildings and investment properties		68,843	–
Loss on disposal of other property, plant and equipment		(63)	(1,211)
Other losses	8	(1,244)	–
Selling and distribution expenses		(14,635)	(9,661)
Administrative and other operating expenses		(90,909)	(70,818)
Amortisation of goodwill		–	(214)
Impairment losses recognised in respect of goodwill		(3,601)	(3,645)
Finance costs	9	(1,048)	(748)
PROFIT BEFORE TAXATION	10	78,075	18,157
TAX EXPENSE	13	(5,775)	(7,003)
PROFIT FOR THE YEAR		72,300	11,154
Attributable to			
Equity holders of the company		72,174	11,304
Minority interests		126	(150)
		72,300	11,154
DIVIDEND	15	23,098	4,496
EARNINGS PER SHARE – (HK CENTS)			
– basic	16	15.6 cents	2.5 cents
– diluted	16	15.6 cents	2.5 cents

BALANCE SHEETS

As at 31st March, 2006

	Notes	The group		The company	
		2006 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	17	13,300	64,037	–	–
Investment properties	18	15,911	17,818	–	–
Leasehold land	19	64,460	45,099	–	–
Goodwill	20	–	–	–	–
Interests in subsidiaries	21	–	–	202,207	204,860
Available-for-sale financial assets	22	13,619	–	3,878	–
Investments in securities	23	–	7,638	–	–
Club debenture		–	335	–	–
Pledged long-term bank deposit	29	7,798	–	–	–
Deferred tax assets	33	41	47	–	–
		115,129	134,974	206,085	204,860
CURRENT ASSETS					
Inventories	24	58,415	51,493	–	–
Debtors, deposits and prepayments	25	56,663	47,188	–	–
Financial assets at fair value through profit or loss	26	27,669	–	–	–
Deposits for acquisitions of properties		–	11,398	–	–
Amount due from related companies	27	1,516	1,016	–	–
Derivative financial instruments	28	194	–	–	–
Investments in securities	23	–	3,862	–	3,862
Tax recoverable		846	292	–	–
Cash and bank balances	29	66,432	40,651	729	1,026
		211,735	155,900	729	4,888
CURRENT LIABILITIES					
Creditors and accrued charges	30	34,336	36,980	8	8
Derivative financial instruments	28	992	–	–	–
Other deposit received		–	18,000	–	–
Tax payable		1,253	3,875	–	–
Obligations under finance leases	31	29	33	–	–
Bank borrowings	32	2,495	3,365	–	–
		39,105	62,253	8	8

BALANCE SHEETS

As at 31st March, 2006

	Notes	The group		The company	
		2006 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000	2005 HK\$'000
NET CURRENT ASSETS		172,630	93,647	721	4,880
TOTAL ASSETS LESS CURRENT LIABILITIES		287,759	228,621	206,806	209,740
NON-CURRENT LIABILITIES					
Obligations under finance leases	31	84	113	–	–
Bank borrowings	32	25,984	18,792	–	–
Deferred tax liabilities	33	728	1,143	–	–
		26,796	20,048	–	–
		260,963	208,573	206,806	209,740
CAPITAL AND RESERVES					
Share capital	34	4,621	4,608	4,621	4,608
Reserves	36	255,809	203,558	202,185	205,132
Equity attributable to equity holders of the company		260,430	208,166	206,806	209,740
Minority interests		533	407	–	–
Total equity		260,963	208,573	206,806	209,740

The financial statements on pages 24 to 94 were approved and authorised for issue by the board of directors on 21st July, 2006 and are signed on its behalf by:

Chan Chung Yee, Hubert
Director

Chan Chung Yin, Roy
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2006

	Attributable to equity holders											Total
	Share capital	Share premium	Share option reserve	Capital reserve	Leasehold			Translation reserve	Retained profits	Total	Minority interests	
					Investment property revaluation reserve	land and buildings revaluation reserve	Investment revaluation reserve					
					HK\$'000	HK\$'000	HK\$'000					
At 1st April, 2004												
As previously reported	4,496	29,535	–	28,325	8,358	27,944	–	48	96,235	194,941	557	195,498
Prior year adjustments arising from changes in accounting policies	–	–	–	–	(8,358)	(2,393)	–	318	(4,427)	(14,860)	–	(14,860)
As restated	4,496	29,535	–	28,325	–	25,551	–	366	91,808	180,081	557	180,638
Exchange differences on translation of overseas operations	–	–	–	–	–	–	–	(23)	–	(23)	–	(23)
Revaluation surplus	–	–	–	–	–	13,914	–	–	–	13,914	–	13,914
Deferred tax credited to revaluation reserve	–	–	–	–	–	5,470	–	–	–	5,470	–	5,470
Exercise of share options	112	1,804	–	–	–	–	–	–	–	1,916	–	1,916
Net profit for the year	–	–	–	–	–	–	–	–	11,304	11,304	(150)	11,154
Dividend paid	–	–	–	–	–	–	–	–	(4,496)	(4,496)	–	(4,496)
At 31st March, 2005	<u>4,608</u>	<u>31,339</u>	<u>–</u>	<u>28,325</u>	<u>–</u>	<u>44,935</u>	<u>–</u>	<u>343</u>	<u>98,616</u>	<u>208,166</u>	<u>407</u>	<u>208,573</u>
At 1st April, 2005												
As previously reported	4,608	31,339	–	28,325	23,713	47,430	–	113	103,739	239,267	407	239,674
Prior year adjustments arising from changes in accounting policies	–	–	–	–	(23,713)	(2,495)	–	230	(5,123)	(31,101)	–	(31,101)
As restated	4,608	31,339	–	28,325	–	44,935	–	343	98,616	208,166	407	208,573
Opening balance adjustments arising from changes in accounting policies	–	–	–	–	–	–	1,471	–	–	1,471	–	1,471
At 1st April, 2005 (as restated after prior year and opening balance adjustments)	4,608	31,339	–	28,325	–	44,935	1,471	343	98,616	209,637	407	210,044
Exchange differences on translation of overseas operations	–	–	–	–	–	–	–	105	–	105	–	105
Equity-settled share – based transactions	–	–	1,047	–	–	–	–	–	–	1,047	–	1,047
Release to retained profits upon disposal of leasehold land and buildings	–	–	–	–	–	(44,935)	–	–	44,935	–	–	–
Increase in fair value of available-for-sale financial assets	–	–	–	–	–	–	311	–	–	311	–	311
Exercise of share options	13	241	–	–	–	–	–	–	–	254	–	254
Net profit for the year	–	–	–	–	–	–	–	–	72,174	72,174	126	72,300
Dividend paid	–	–	–	–	–	–	–	–	(23,098)	(23,098)	–	(23,098)
At 31st March, 2006	<u>4,621</u>	<u>31,580</u>	<u>1,047</u>	<u>28,325</u>	<u>–</u>	<u>–</u>	<u>1,782</u>	<u>448</u>	<u>192,627</u>	<u>260,430</u>	<u>533</u>	<u>260,963</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2006

	2006 HK\$'000	2005 HK\$'000 (restated)
OPERATING ACTIVITIES		
Profit before taxation	78,075	18,157
Adjustments for:		
Depreciation	4,121	4,057
Loss on disposal of other property, plant and equipment	63	1,211
Amortisation of prepaid operating lease payments	609	382
Gain on disposal of leasehold land and buildings and investment properties	(68,843)	–
Amortisation of goodwill	–	214
Impairment losses recognised in respect of goodwill	3,601	3,645
Dividend income from unlisted investments	–	(312)
Dividend income from listed investments	(162)	–
Allowances for inventories	4,829	3,912
Deposits paid written off	3,725	–
Provision for impairment of trade debtors	9,025	557
Bad debts recovered	(190)	–
Bad debts written off	424	849
Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss	(3,095)	–
Losses from dealing in foreign currency contracts, options and other derivative financial instruments	1,244	–
Interest income	(1,240)	(207)
Finance costs	1,048	748
Equity-settled share-based payment expenses	1,047	–
Operating cash inflows before movements in working capital	34,281	33,213
Increase in inventories	(10,431)	(3,716)
Increase in debtors, deposits and prepayments	(21,849)	(6,900)
(Increase)/decrease in amount due from related companies	(500)	809
Decrease in creditors and accrued charges	(3,016)	(6,561)
Exchange adjustments	39	(58)
Net cash (used in)/generated from operations	(1,476)	16,787

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2006

	Note	2006 HK\$'000	2005 HK\$'000 (restated)
Interest received		1,240	207
Interest paid		(1,043)	(740)
Interest on obligations under finance leases		(5)	(8)
Tax paid:			
Hong Kong		(9,085)	(585)
Overseas		(275)	(132)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES		(10,644)	15,529
INVESTING ACTIVITIES			
Deposits paid for acquisitions of properties		–	(11,398)
Purchase of leasehold land and buildings and investment properties		(61,708)	–
Purchase of other property, plant and equipment		(8,563)	(2,976)
Purchase of financial assets at fair value through profit and loss		(26,870)	–
Purchase of investments in securities		–	(998)
Other deposit received for disposal of leasehold land and buildings and investment properties		–	18,000
Net proceeds from disposal of leasehold land and buildings and investment properties		160,700	–
Proceeds from disposal of other property, plant and equipment		190	314
Dividend income from listed investments		162	–
Dividend income from unlisted investments		–	312
Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss		3,095	–
Losses from dealing in foreign currency contracts, options and other derivative financial instruments		(1,244)	–
(Increase)/decrease in pledged bank deposits		(7,798)	280
Acquisition of a subsidiary	39	(5,045)	–
NET CASH FROM INVESTING ACTIVITIES		52,919	3,534

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2006

	2006 HK\$'000	2005 HK\$'000 (restated)
FINANCING ACTIVITIES		
New bank loan obtained	30,000	–
Proceeds from issue of shares on exercise of share options	254	1,916
Dividend paid	(23,098)	(4,496)
Repayment of bank loans	(23,746)	(8,192)
Repayment of obligations under finance leases	(33)	(66)
	<u>(16,623)</u>	<u>(10,838)</u>
NET CASH USED IN FINANCING ACTIVITIES		
	25,652	8,225
NET INCREASE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	40,651	32,417
Effect of foreign exchange rates changes	61	9
	<u>66,364</u>	<u>40,651</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	66,432	40,651
Bank overdrafts	(68)	–
	<u>66,364</u>	<u>40,651</u>

1. GENERAL

The company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The address of the registered office and other corporate information are set out on page 2 of the annual report.

The principal activity of the company is that of investment holding. The principal activities of the subsidiaries are set out in note 43.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK-Int"), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the group and are adopted for the first time for the current year's financial statements:

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 16	Property, Plant and Equipment
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: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS — continued

HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 36, 37, 39 (Amendment) and HK-Int 4 has had no material impact on the accounting policies of the group and the company and the methods of computation in the group's and the company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the group's related party disclosures.

The impact of adopting the other HKFRSs are summarised as follows:

a) HKAS 17 – Leases

In the prior years, owner-occupied leasehold land and buildings were included in property, plant and equipment and stated at valuation at the balance sheet date. In the current year, the group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid operating lease payments, which are carried at cost and amortised over the lease term on a straight-line basis. Buildings element is still included in leasehold land and buildings and is stated at cost less accumulated depreciation and any impairment loss. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as leasehold land and buildings.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS — continued

b) HKAS 32 – Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement

In the current year, the group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurements”. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the company and the group. HKAS 39 generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis.

The group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Until 31st March, 2005 investments of the group were classified into investments in securities and club debenture, which were stated in the consolidated balance sheet at cost less any impairment losses.

In accordance with the provisions of HKAS 39, the investments have been classified into available-for-sale financial assets. As a result of the adoption of HKAS 39, all the investments are now stated at fair value in the balance sheets except for certain available-for-sale financial assets which do not have quoted market prices in an active market and whose fair value cannot be reliably measured and these assets are stated at cost less any impairment loss.

On 1st April, 2005 the group reclassified its investments in securities and club debenture to available-for-sale financial assets.

c) HKAS 40 – Investment Property

In the current year, the group has, for the first time, applied HKAS 40 “Investment Property”. The group has elected to use the cost model to account for its investment properties which requires the investment properties to be stated at cost less accumulated depreciation and any impairment losses. In accordance with the provisions of HKAS 17, the land and buildings elements of an investment property should be split. The land element is reclassified to prepaid operating lease payments and is stated at cost and amortised over the period of leases on a straight-line basis. The change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interest in land continue to be accounted for as investment properties. In prior years, investment properties under SSAP 13 were measured at open market value, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS — continued

d) HKFRS 2 – Share-based payment

In prior years, no recognition and measurement of share-based payment transactions in which employees of the group (including directors) were granted share options over shares in the company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees of the group (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 3 “significant accounting policies” below.

The group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7th November, 2002; and (ii) options granted to employees after 7th November, 2002 but which were vested before 1st January, 2005.

e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets:

In prior years, goodwill arising on acquisitions prior to 1st January, 2001 was eliminated against the consolidated retained profits in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1st January, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment test when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the group ceasing annual goodwill amortisation and commencing test for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the group to eliminate at 1st April, 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill. Goodwill previously eliminated against the retained earnings remains eliminated against the retained earnings and is not recognised in the consolidated income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

In accordance with the transitional provisions of HKFRS 3, comparative figures have not been restated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2.3 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

The cumulative effect of the application of the new HKFRSs are summarised as below:

i) Effect on the consolidated balance sheet as at 31st March, 2005 and 1st April, 2005

	As at		As at		As at	
	31st March,	Effect of new policies		31st March,	1st April,	
	2005	increase/(decrease)		2005	2005	
	(as previously reported)	HKAS 17	HKAS 40	(as restated)	HKASs 32 and 39*	(as restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets						
Property, plant and equipment	67,138	(3,101)	–	64,037	–	64,037
Investment properties	91,301	(56,070)	(17,413)	17,818	–	17,818
Leasehold land	–	45,099	–	45,099	–	45,099
Available-for-sale financial assets	–	–	–	–	13,306	13,306
Investments in securities	7,638	–	–	7,638	(7,638)	–
Club debenture	335	–	–	335	(335)	–
Other non-current assets	47	–	–	47	–	47
	<u>166,459</u>	<u>(14,072)</u>	<u>(17,413)</u>	<u>134,974</u>	<u>5,333</u>	<u>140,307</u>
Current assets						
Debtors, deposits and prepayments	46,807	381	–	47,188	–	47,188
Investments in securities	3,862	–	–	3,862	(3,862)	–
Other current assets	104,850	–	–	104,850	–	104,850
	<u>155,519</u>	<u>381</u>	<u>–</u>	<u>155,900</u>	<u>(3,862)</u>	<u>152,038</u>
Current liabilities	<u>62,253</u>	<u>–</u>	<u>–</u>	<u>62,253</u>	<u>–</u>	<u>62,253</u>
Net current assets	<u>93,266</u>	<u>381</u>	<u>–</u>	<u>93,647</u>	<u>(3,862)</u>	<u>89,785</u>
	<u>259,725</u>	<u>(13,691)</u>	<u>(17,413)</u>	<u>228,621</u>	<u>1,471</u>	<u>230,092</u>
Non-current liabilities						
Deferred tax liabilities	1,146	(3)	–	1,143	–	1,143
Other non-current liabilities	18,905	–	–	18,905	–	18,905
	<u>20,051</u>	<u>(3)</u>	<u>–</u>	<u>20,048</u>	<u>–</u>	<u>20,048</u>
	<u>239,674</u>	<u>(13,688)</u>	<u>(17,413)</u>	<u>208,573</u>	<u>1,471</u>	<u>210,044</u>

* Adjustments/presentation taken effect from 1st April, 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2.3 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES — continued

i) Effect on the consolidated balance sheet at 31st March, 2005 and 1st April, 2005 — continued

	As at	Effect of new policies		As at	As at	
	31st March,	increase/(decrease)		31st March,	1st April,	
	2005 (as previously reported)	HKAS 17	HKAS 40	2005 (as restated)	HKASs 32 and 39*	2005 (as restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CAPITAL AND RESERVES						
Share capital	4,608	–	–	4,608	–	4,608
Share premium	31,339	–	–	31,339	–	31,339
Capital reserve	28,325	–	–	28,325	–	28,325
Investment property revaluation reserve	23,713	(8,674)	(15,039)	–	–	–
Leasehold land and buildings revaluation reserve	47,430	(2,495)	–	44,935	–	44,935
Investment revaluation reserve	–	–	–	–	1,471	1,471
Translation reserve	113	230	–	343	–	343
Retained profits	103,739	(2,749)	(2,374)	98,616	–	98,616
Minority interests	407	–	–	407	–	407
	<u>239,674</u>	<u>(13,688)</u>	<u>(17,413)</u>	<u>208,573</u>	<u>1,471</u>	<u>210,044</u>

* Adjustments/presentation taken effect from 1st April, 2005.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2.3 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES — continued

ii) Effect on consolidated income statement for the year ended 31st March, 2005

	For the year			For the year ended 31st March, 2005 (as restated) HK\$'000
	31st March, 2005 (as previously reported) HK\$'000	Effect of new policies		
		increase/(decrease)		
		in profit for the year		
	HKAS 17 HK\$'000	HKAS 40 HK\$'000		
Sales	974,056	–	–	974,056
Cost of sales	(871,275)	–	–	(871,275)
Gross profit	102,781	–	–	102,781
Other income and gains	1,673	–	–	1,673
Loss on disposal of other property, plant and equipment	(1,211)	–	–	(1,211)
Selling and distribution expenses	(9,661)	–	–	(9,661)
Administrative and other operating expenses	(66,379)	–	–	(66,379)
Depreciation	(3,507)	(11)	(539)	(4,057)
Amortisation of prepaid operating lease payments	–	(382)	–	(382)
Amortisation of goodwill	(214)	–	–	(214)
Impairment losses recognised in respect of goodwill	(3,645)	–	–	(3,645)
Finance costs	(748)	–	–	(748)
Profit before taxation	19,089	(393)	(539)	18,157
Tax expense	(7,239)	236	–	(7,003)
Profit for the year	<u>11,850</u>	<u>(157)</u>	<u>(539)</u>	<u>11,154</u>
Attributable to				
Equity holder of the company	12,000	(157)	(539)	11,304
Minority interests	(150)	–	–	(150)
	<u>11,850</u>	<u>(157)</u>	<u>(539)</u>	<u>11,154</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2.3 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES — continued

The following tables provide estimates of the extent to which the affected items in the consolidated income statement and balance sheet for the year ended 31st March, 2006 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

i) Effect on the consolidated balance sheet as at 31st March, 2006

	Effect of new policies				Total
	increase/(decrease)				
	HKFRS 2	HKAS 17	HKASs		
HK\$'000	HK\$'000	32 & 39	HKAS 40	HK\$'000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	–	(3,391)	–	–	(3,391)
Investment properties	–	(59,365)	–	(1,124)	(60,489)
Leasehold land	–	64,460	–	–	64,460
Available-for-sale financial assets	–	–	13,619	–	13,619
Investments in securities	–	–	(11,500)	–	(11,500)
Club debenture	–	–	(335)	–	(335)
Debtors, deposits and prepayments	–	609	–	–	609
Financial assets at fair value					
through profit or loss	–	–	27,669	–	27,669
Derivative financial instruments	–	–	(798)	–	(798)
Share option reserve	1,047	–	–	–	1,047

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

2.3 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES — continued

ii) Effect on the consolidated income statement for the year ended 31st March, 2006

	Effect of new policies				Total
	increase/(decrease)				
	HKFRS 2	HKAS 17	HKASs 32 & 39	HKAS 40	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Increase in gain on disposal of leasehold land and buildings and investment properties	–	31,000	–	–	31,000
Increase in depreciation on investment properties	–	–	–	(426)	(426)
Increase in amortisation of prepaid operating lease payments	–	(609)	–	–	(609)
Increase in unrealised gains on financial assets at fair value through profit or loss	–	–	773	–	773
Increase in unrealised losses from derivative financial instruments	–	–	(798)	–	(798)
Increase in equity-settled share-based payment expenses	(1,047)	–	–	–	(1,047)
Total (decrease)/increase in profit for the year	<u>(1,047)</u>	<u>30,391</u>	<u>(25)</u>	<u>(426)</u>	<u>28,893</u>
Increase in basic earnings per share					<u>HK6.3 cents</u>
Increase in diluted earnings per share					<u>HK6.3 cents</u>

3. SIGNIFICANT ACCOUNTING POLICIES

a) Subsidiaries:

A subsidiary is a company whose financial and operating policies the company controls, directly or indirectly, so as to obtain benefits from its activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES — continued

a) Subsidiaries: — continued

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed by the group has been recovered.

In the company's balance sheet, investment in subsidiaries are stated at cost less any impairment losses. The results of subsidiaries are accounted for by the company on the basis of dividends declared or approved during the company's financial year.

b) Goodwill:

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the group's interest in the net fair values of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisition for which the agreement date is on or after 1st January, 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment test, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units, or group of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated.

- represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the group's primary or the group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit, or group of cash-generating units to which the goodwill relates. Where the recoverable amount of the cash-generating unit, or group of cash-generating units is less than the carrying amount, an impairment loss is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

b) Goodwill: — continued

Where goodwill forms part of a cash-generating unit, or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after 1st January, 2005)

Any excess of the group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries, (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

c) Property, plant and equipment:

Property, plant and equipment, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES — continued

c) Property, plant and equipment:

Depreciation on property, plant and equipment is calculated on the straight-line basis to allocate cost to their residual value over their estimated useful lives as follows:

Buildings	Over the shorter of the term of the lease or 40 years
Motor vehicles	20% p.a.
Computer equipment	33 $\frac{1}{3}$ % p.a.
Office equipment	10% – 20% p.a.
Leasehold improvements	20% p.a.
Furniture and fixtures	10% – 20% p.a.
Moulds	20% p.a.
Plant and machinery	20% p.a.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on derecognition of the asset (calculated as the difference between the net sale proceeds and the carrying amount of the asset) is included in the income statement in the year in which the item is derecognised).

d) Investment properties:

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and any impairment loss. Depreciation is calculated to write-off the cost of investment properties, less their residue values, if any, using the straight-line method over the shorter of the term of the lease or 40 years.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

e) Financial instruments:

i) Classification

From 1st April, 2005, financial assets and liabilities of the group are classified under the following categories:

Financial assets at fair value through profit or loss

This category comprises financial assets held for trading and those designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short-term. Debts securities and bank deposits with embedded derivatives for yield enhancement whose economic characteristics and risks are not closely related to the host securities and deposits are designated as financial assets at fair value through profit or loss.

Available-for-sale financial assets

This category comprises financial assets which are non-derivatives and are designated as available-for-sale financial assets or not classified under other investment categories.

Loan and Receivables

Loan and Receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market, and with no intention of trading the receivables. Bank deposits are treated as loans and receivables and are disclosed as cash and bank balances.

ii) Recognition and initial measurement

Purchases and sales of investments are recognised on trade-date – the date on which the group commits to purchase or sell the assets. Investments at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in the income statement. Investments not designated as fair value through profit or loss are initially recognised at fair value plus transaction costs.

iii) Derecognition

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially the risk and rewards of ownership.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES — continued

e) Financial instruments: — continued

iv) *Gains or losses on subsequent measurement and interest income*

Financial assets at fair value through profit or loss

- Investments under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise. Upon disposal, the difference between the sale proceeds and the carrying value is included in the income statement.
- Interest income is recognised using the effective interest method and included as net realised and unrealised gains and losses and interest income from these investments.

Available-for-sale financial assets

- Available-for-sale financial assets carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in investment revaluation reserve, except for monetary securities whose exchange differences resulting from changes in amortised costs are recognised in the income statement. When the securities are sold, the difference between the sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal.
- Interest income recognised using the effective interest method and disclosed as interest income.

Loans and receivables

- Loans and receivables are carried at amortised cost using the effective interest method less any impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less any impairment losses.
- Interest income is recognised using the effective interest method and disclosed as interest income.

v) *Fair value measurement principles*

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the group establishes the fair value by using valuation techniques including the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing model.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

e) Financial instruments: — continued

vi) *Impairment*

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets are impaired. If any such evidence exists for the available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on the financial assets previously recognised in the profits or loss – is removed from investment revaluation reserve and recognised in the income statement.

In case of equity securities classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

A provision of impairment for loans and receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of provision is recognised in the income statement.

vii) *Non-trading investments (only applicable to accounting periods ended on or before 31st March, 2005)*

Non-trading investments in listed and unlisted equity and debt securities were intended to be held on a long-term basis and were stated at cost less any impairment losses.

Individual securities were reviewed at each balance sheet date to determine whether they were impaired.

f) Derivative financial instruments:

The group invests in certain derivative financial instruments, such as forward currency contracts and currency options, for trading purposes. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to net profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES — continued

g) Inventories:

Inventories are stated at the lower of cost, on the first-in, first-out basis, and net realisable value. Costs comprise direct materials and the related purchase costs. In the case of finished goods and work in progress, costs also includes direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less all costs to be incurred to completion and disposal.

h) Leases:

Leases that transfer substantially all the rewards and risks of ownership of assets to the group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease term and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the group is the lessor, assets leased by the group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease term. Where the group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the relevant lease terms.

Prepaid operating lease payments are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of properties as a finance lease.

i) Cash and cash equivalents:

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the group's cash management.

3. SIGNIFICANT ACCOUNTING POLICIES — continued**j) Payables:**

Payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

k) Revenue recognition:

Sales of goods are recognised when goods are delivered and title has passed.

Service fee income, arising from repairs installation, maintenance and connection services, are recognised when the relevant services are rendered.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight-line basis over the terms of the relevant leases.

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

l) Employee benefits:*Share-based payment*

The fair value of share options granted to employees is recognised as employee costs with a corresponding increase in a share option reserve within equity. The fair value is measured at grant date using the Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options are granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period taking into account the probability that the options will vest. Otherwise, the fair value of options is recognised in the period in which the options are granted.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustments to the cumulative fair value recognised in prior years is charged or credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is transferred to share capital and share premium account) or the option expires (when it is released directly to retained profits).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES — continued

l) Employee benefits: — continued

Share-based payment — continued

Share-based payment transactions in which the company grants share options to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the company's balance sheet which is eliminated on consolidation.

Employment Ordinance long service payments

Certain of the group's employees have completed the required number of years of service to the group in order to be eligible for long service payments under the Hong Kong Employment Ordinance and the relevant labour laws of the respective countries in which the overseas subsidiaries operate in the event of the termination of their employment. The group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance and the relevant labour laws.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from the commencement of their services to the group to the balance sheet date.

Pension schemes and other retirement benefits

The group joins defined contribution retirement benefits schemes in Hong Kong and overseas for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the group in independently administered funds. In respect of the Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"), the group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a specific amount for the employees in Mainland China, pursuant to the local municipal government regulations. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

m) Borrowing costs:

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

n) Income tax expense:

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liabilities arise from the initial recognition of assets or liabilities and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised except where the deferred tax assets relating to the deductible temporary differences arises from the initial recognition of assets or liabilities and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the assets are realised or the liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES — continued

o) Impairment:

i) *Impairment of receivables*

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial assets and the estimated future cash flows, discounted at the current market rate of return for a similar financial assets where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases.
- For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

o) Impairment: — continued

ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired, an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment; and
- Other tangible assets.

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment loss is credited to the income statement in the year in which the reversal is recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

3. SIGNIFICANT ACCOUNTING POLICIES — continued

p) Foreign currency transaction:

a) Functional and presentation currency

Items included in the financial statements of the group and the company are measured using the currency of the primary economic environment in which the group and the company operate ("the functional currency"). The financial statements are presented in Hong Kong dollars, which is the group's and the company's functional and presentation currency.

b) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the year-end exchange rates. All exchange differences are recognised in the income statement.

c) 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 differences on non-monetary items, such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

q) Related parties:

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the parties or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the parties are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefits of employees of the group or of any entity that is a related party of the group.

r) Contingent liabilities:

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the note to the financial statements. When a change in the probability of an outflow occurs so that outflow is possible, they will then be recognised as a provision.

3. SIGNIFICANT ACCOUNTING POLICIES — continued

s) Segment reporting:

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. 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 accordance with the group's internal financial reporting the group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land, available-for-sale financial assets, financial assets at fair value through profit or loss, receivables and operating cash excluding taxation. Segment liabilities comprise operating liabilities excluding taxation. Capital expenditure comprises additions to property, plant and equipment, leasehold land and investment properties.

In respect of geographical segment reporting, turnover, operating results, total assets and capital expenditure are based on the country in which the relevant assets are located.

t) Dividends:

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Exposure to credit, liquidity, interest rate, foreign currency and price risks arises in the normal course of the group's business. These risks are limited by the group's financial management policies and practices described below.

a) Credit risk

The group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimize the credit risk, the group has been monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, the directors consider that the group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES — continued

b) Liquidity risk

The group's policy is to regularly monitor current and expected liquidity level to ensure that it maintains sufficient reserves of cash and bank balances and readily realisable marketable securities for its daily operation and investment purpose.

c) Interest rate risk:

In respect of income-earning financial assets and interest-bearing liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier:

	2006				2005		
	Effective	One year or less	2-5 years	More than 5 years	Effective	One year or less	2-5 years
	interest				interest		
	rate	HK\$'000	HK\$'000	HK\$'000	rate	HK\$'000	HK\$'000
%				%			
Repricing dates for assets/ (liabilities) which reprice before maturity							
Cash at bank	2.42%	5,998	-	-	0.1%	13	-
Deposits with banks	2.9% – 6.5%	31,235	-	-	-	-	-
Bank loans	5.4% – 5.75%	-	(204)	(28,207)	2.6% – 5.75%	(21,868)	(289)
Bank overdrafts	8%	(68)	-	-	-	-	-
		<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>
Maturity dates for assets which do not reprice before maturity							
Deposits with banks	3.6% – 4.75%	15,258	-	-	0.26%	3,403	-
		<u> </u>	<u> </u>	<u> </u>		<u> </u>	<u> </u>

d) Foreign currency risk:

The group operates locally and is exposed to limited foreign exchange risks as most debtors and creditors are denominated in Hong Kong Dollars and United States Dollars.

e) Price risk:

The group is exposed to equity securities price risk because investments held by the group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The group is not exposed to commodity price risk.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the group's accounting policies which are described in note 3, management has made the following estimates that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation and judgements at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Useful lives of property, plant and equipment

The group's management determines the estimate useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previous estimation, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

Estimate impairment of goodwill

The group conducts test for impairment of goodwill annually in accordance with the relevant accounting standards. Determining whether the goodwill is impaired requires an estimation of the value in use on basis of data available to the group. Where the future cash flows are less than expected, an impairment loss may arise.

Allowances for inventories

The management of the group makes allowance for obsolete and slow-moving inventories that are identified as no longer salable. The management estimates the net realisable value of its inventories based primarily on the latest invoice prices and current market conditions. The group carries out review of inventories on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving items.

Provision for impairment of trade debtors

The policy for impairment of trade debtors of the group is based on the evaluation of collectibility and aging analysis of trade debtors and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these debtors including the current creditworthiness and the past collection history of each customer, if the financial conditions of customers of the group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

Provision for long service payments

The group provides for probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance. The provision is based on the best estimate of the probable future payments which have been earned by the employees from the commencement of their services to the group to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

6. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for periods beginning on or after 1st April, 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gain and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

In addition, the Hong Kong Companies Ordinance (Amendments) 2005 came into effect on 1st December, 2005 and will be first applicable to the group's financial statements for the year beginning 1st April, 2006.

The HKAS 1 Amendment shall be applied for financial periods beginning on or after 1st April, 2007. The revised standard will affect the disclosures about qualitative information about the group's objective, policies and processes for managing capital; quantitative data about what the company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 incorporates and further extends the disclosure requirements of HKAS 32 and modifies the disclosure requirements of HKAS 32 relating to financial instruments. The HKFRS 7 shall be applied for financial periods beginning on or after 1st April, 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

Except as stated above, the group expects that the adoption of the pronouncements listed above will not have any significant impact on the group's financial statements in the period of initial application.

7. TURNOVER/SEGMENTAL INFORMATION

Turnover represents sales of mobile phones, business solutions and gross rental income.

For management purposes, the group is currently organised into three operating divisions – sales of mobile phones, sales of business solutions and property investment.

Segment information about the group's business is presented below:

i) Primary reporting format – business segments

For the year ended 31st March, 2006:

	Sales of mobile phones HK\$'000	Sales of business solutions HK\$'000	Property investment HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
TURNOVER					
External sales	914,889	86,347	1,254	–	1,002,490
Inter-segment sales	1,278	–	–	(1,278)	–
Total turnover	<u>916,167</u>	<u>86,347</u>	<u>1,254</u>	<u>(1,278)</u>	<u>1,002,490</u>

Inter-segment sales were charged at prevailing market prices.

RESULTS

Segment results	<u>9,831</u>	<u>(2,616)</u>	<u>(102)</u>	<u>–</u>	7,113
Interest income from bank deposits					1,170
Unallocated other income and gains					5,598
Gain on disposal of leasehold land and buildings and investment properties	–	–	68,843	–	68,843
Impairment loss recognised in respect of goodwill	(3,601)	–	–	–	(3,601)
Finance costs					<u>(1,048)</u>
Profit before taxation					78,075
Tax expense					<u>(5,775)</u>
Profit for the year					<u>72,300</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

7. TURNOVER/SEGMENTAL INFORMATION — continued

i) Primary reporting format – business segments — continued

At 31st March, 2006:

Balance sheet

	Sales of mobile phones HK\$'000	Sales of business solutions HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
ASSETS				
Segment assets	132,608	63,475	81,500	277,583
Unallocated corporate assets				49,281
				<u>326,864</u>
Consolidated total assets				<u><u>326,864</u></u>
LIABILITIES				
Segment liabilities	26,818	10,081	3,117	40,016
Unallocated corporate liabilities				25,885
				<u>65,901</u>
Consolidated total liabilities				<u><u>65,901</u></u>
OTHER INFORMATION				
Capital expenditures	4,340	3,963	73,366	81,669
Depreciation and amortisation	2,197	1,588	945	4,730
Impairment losses recognised in respect of goodwill	3,601	–	–	<u>3,601</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

7. TURNOVER/SEGMENTAL INFORMATION — continued

i) Primary reporting format – business segments — continued

Segment information about the group's business is presented below:

For the year ended 31st March, 2005:

	Sales of mobile phones	Sales of business solutions	Property investment	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(restated)
TURNOVER					
External sales	898,658	73,791	1,607	–	974,056
Inter-segment sales	773	–	1,860	(2,633)	–
Total turnover	<u>899,431</u>	<u>73,791</u>	<u>3,467</u>	<u>(2,633)</u>	<u>974,056</u>

Inter-segment sales were charged at prevailing market prices.

RESULTS

Segment results	<u>21,659</u>	<u>713</u>	<u>(1,281)</u>	<u>–</u>	21,091
Interest income from bank deposits					207
Unallocated other income and gains					1,466
Amortisation of goodwill	–	(214)	–	–	(214)
Impairment losses recognised in respect of goodwill	–	(3,645)	–	–	(3,645)
Finance costs					<u>(748)</u>
Profit before taxation					18,157
Tax expense					<u>(7,003)</u>
Profit for the year					<u>11,154</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

7. TURNOVER/SEGMENTAL INFORMATION — continued

i) Primary reporting format – business segments — continued

At 31st March, 2005:

Balance sheet

	Sales of mobile phones HK\$'000	Sales of business solutions HK\$'000	Property investment HK\$'000	Consolidated HK\$'000 (restated)
ASSETS				
Segment assets	107,966	49,717	92,383	250,066
Unallocated corporate assets				40,808
Consolidated total assets				<u>290,874</u>
LIABILITIES				
Segment liabilities	32,649	8,586	19,188	60,423
Unallocated corporate liabilities				21,878
Consolidated total liabilities				<u>82,301</u>
OTHER INFORMATION				
Capital expenditures	2,144	993	–	3,137
Depreciation and amortisation	1,815	1,383	1,241	4,439
Amortisation of goodwill arising on acquisition of subsidiaries	–	214	–	214
Impairment losses recognised in respect of goodwill	–	3,645	–	<u>3,645</u>

ii) Secondary reporting format – geographical segments

During the years ended 31st March, 2005 and 2006, more than 90% of the group's turnover, profit from operations, assets and liabilities were derived from and located in Hong Kong and, therefore, no geographical segments for the relevant years are presented in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

8. OTHER INCOME AND GAINS

	2006 HK\$'000	2005 HK\$'000
Dividend income		
– listed available-for-sale financial assets	80	–
– listed financial assets at fair value through profit or loss	82	–
– unlisted investment	–	312
Interest income		
– bank deposits	1,170	207
– others	70	–
Commission income	543	–
Bad debts recovered	190	–
Net realised and unrealised gains and interest income on financial assets at fair value through profit or loss		
– bank deposits with embedded derivatives	2,346	–
– listed securities	743	–
– exchange differences	6	–
Management income	724	–
Net exchange gains	6	55
Others	808	1,099
	6,768	1,673
	HK\$'000	HK\$'000

OTHER LOSSES

Net losses from forward currency contracts, options and other derivative financial instruments	1,244	–
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9. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on:		
– Bank borrowings wholly repayable within five years	13	18
– Bank borrowings with instalments repayable after five years	1,030	722
– Interest on obligations under finance leases	5	8
	1,048	748

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

10. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2006 HK\$'000	2005 HK\$'000 (restated)
Auditors' remuneration		
– Current year	429	442
– Overprovision in respect of prior year	–	(170)
	429	272
Operating lease rentals in respect of rented premises		
– Minimum lease payment	7,736	7,661
– Contingent rent	1,624	1,613
	9,360	9,274
Depreciation		
– Owned assets	4,090	4,026
– Leased assets	31	31
	4,121	4,057
Amortisation of prepaid operating lease payments	609	382
Employee benefits expenses (including directors' remuneration <i>note (11)</i>)		
– Salaries, allowances and benefits in kind	50,864	46,486
– Retirement benefit scheme contributions	2,573	2,558
– Equity-settled share option expenses	1,047	–
	54,484	49,044
Total staff costs	54,484	49,044
Donation	495	507
Deposits paid written off	3,725	–
Provision for impairment of trade debtors	9,025	557
Bad debts written off	424	849
Amortisation of goodwill	–	214
	1,426	1,405
and after crediting:		
Gross rental income from investment properties under operating leases after outgoings of HK\$240,000 (2005: HK\$202,000)	1,426	1,405

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

II. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2006					2005	
	Salaries, allowances and benefits			Employee share option benefits	Retirement benefit scheme contributions	Total remuneration	Total remuneration
	Fee	in kind	Discretionary bonuses				
	HK\$'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
Executive directors:							
Chan Chung Yee, Hubert	–	630	1,429	222	10	2,291	1,465
Chan Chung Yin, Roy	–	345	–	103	9	457	9
Chan Man Min	–	36	–	52	–	88	35
Chan Ming Him, Denny	–	148	–	52	8	208	157
Tsui Hon Wing	–	648	83	52	24	807	764
Wu Kwok Lam	–	660	372	52	24	1,108	986
Yeh Yui Fong	–	487	15	52	4	558	428
Kwok Cheuk Tim, Rockie	–	–	–	–	–	–	612
	–	2,954	1,899	585	79	5,517	4,456
Independent Non-executive directors:							
Chiu Ngar Wing	25	–	–	–	–	25	20
Chu Chor Lup	25	–	–	–	–	25	20
Leung Tai Wai, David	20	–	–	–	–	20	–
	70	–	–	–	–	70	40

At the balance sheet date, certain directors held share options of the company, the details of which are set out in note 35 to the financial statements. The fair value of the share options granted during the current year, which has been charged to the income statement, was determined as at the date of the grant and is included in the above disclosure of directors' emoluments.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

12. EMPLOYEES' EMOLUMENTS

The five highest paid individuals of the group included three directors (2005: four directors), details of whose emoluments are included in the amounts disclosed in note 11 above. The emoluments of the remaining highest paid employees, other than directors of the company, are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and allowances	1,842	750
Bonus	–	20
Employee share option benefits	52	–
Retirement benefit schemes contributions	36	12
	<u>1,930</u>	<u>782</u>

Their emoluments were within the following band:

	2006 Number of employees	2005 Number of employees
Nil to HK\$1,000,000	<u>2</u>	<u>1</u>

13. TAX EXPENSE

Hong Kong Profits Tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in elsewhere have been calculated at the rates of tax prevailing in those places in which the group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006 HK\$'000	2005 HK\$'000 (restated)
Current – Hong Kong		
Charge for the year	5,790	5,190
(Over)/underprovision in respect of prior years	(4)	1,845
Current – Elsewhere		
Charge for the year	398	59
Overprovision in respect of prior years	–	(213)
Deferred tax (note 33)	(409)	122
	<u>5,775</u>	<u>7,003</u>
Tax expense for the year		

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

13. TAX EXPENSE — continued

The tax expense for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006 HK\$'000	2005 HK\$'000 (restated)
Profit before taxation	78,075	18,157
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	13,663	3,178
(Over)/underprovision of profits tax in respect of prior years	(4)	1,632
Tax effect of income not taxable	(15,760)	(217)
Tax effect of expenses that are not deductible in determining taxable income	4,728	825
Tax effect on unrecognised tax losses	2,832	1,182
Utilisation of previously unrecognised tax losses	(131)	–
Effect of different tax rates in other jurisdiction	226	33
Others	221	370
Tax expense for the year	5,775	7,003

14. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders includes a profit of HK\$18,847,000 (2005: HK\$9,176,000) which has been dealt with in the financial statements of the company.

15. DIVIDEND

	2006 HK\$'000	2005 HK\$'000
Final dividend for the year 2005 of HK\$0.01 per ordinary share (2005: final dividend for the year 2004 of HK\$0.01 per ordinary share)	4,621	4,496
Special dividend for the year 2006 of HK\$0.04 (2005: Nil) per ordinary share	18,477	–
	23,098	4,496

Final dividend of HK\$0.01 per ordinary share for the year ended 31st March, 2006 has been proposed by the directors and is subject to the approval by the shareholders in general meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

16. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	The group	
	2006	2005
	HK\$'000	HK\$'000 (restated)
Net profit attributable to equity holders of the Company	<u>72,174</u>	<u>11,304</u>
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	462,005,624	451,845,975
Effect of dilutive potential ordinary shares:		
Options	<u>885,322</u>	<u>354,982</u>
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u>462,890,946</u>	<u>452,200,957</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Motor vehicles HK\$'000	Computer equipment HK\$'000	Office equipment, leasehold improvements and furniture and fixtures HK\$'000	Moulds HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
The group							
Net book value at 1st April, 2004 (as restated)	43,497	874	1,078	3,881	1,881	790	52,001
Currency realignment	20	–	(6)	13	–	–	27
Additions	–	335	1,130	1,330	251	91	3,137
Disposals	–	(354)	(48)	(1,123)	–	–	(1,525)
Surplus on revaluation	13,205	–	–	–	–	–	13,205
Depreciation	(753)	(172)	(797)	(1,120)	(470)	(205)	(3,517)
Eliminated on revaluation	709	–	–	–	–	–	709
Net book value at 31st March, 2005	<u>56,678</u>	<u>683</u>	<u>1,357</u>	<u>2,981</u>	<u>1,662</u>	<u>676</u>	<u>64,037</u>
At 31st March, 2005							
Cost or valuation	57,316	1,578	4,801	9,037	2,384	1,078	76,194
Accumulated depreciation	(638)	(895)	(3,444)	(6,056)	(722)	(402)	(12,157)
Net book value	<u>56,678</u>	<u>683</u>	<u>1,357</u>	<u>2,981</u>	<u>1,662</u>	<u>676</u>	<u>64,037</u>
Net book value at 1st April, 2005 (as restated)	56,678	683	1,357	2,981	1,662	676	64,037
Currency realignment	(3)	4	3	(1)	–	(1)	2
Transfer	–	–	(151)	151	–	–	–
Acquisition of a subsidiary	–	–	32	84	–	–	116
Additions	–	193	3,649	4,289	–	432	8,563
Disposals	(55,419)	–	(5)	(299)	–	–	(55,723)
Depreciation	(47)	(183)	(1,174)	(1,414)	(477)	(400)	(3,695)
Net book value at 31st March, 2006	<u>1,209</u>	<u>697</u>	<u>3,711</u>	<u>5,791</u>	<u>1,185</u>	<u>707</u>	<u>13,300</u>
At 31st March, 2006							
Cost	1,893	1,618	8,180	13,186	2,384	1,510	28,771
Accumulated depreciation	(684)	(921)	(4,469)	(7,395)	(1,199)	(803)	(15,471)
Net book value	<u>1,209</u>	<u>697</u>	<u>3,711</u>	<u>5,791</u>	<u>1,185</u>	<u>707</u>	<u>13,300</u>
Net book value of property, plant and equipment held under finance leases At 31st March, 2006	<u>–</u>	<u>127</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>127</u>
At 31st March, 2005	<u>–</u>	<u>158</u>	<u>–</u>	<u>176</u>	<u>–</u>	<u>–</u>	<u>334</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

17. PROPERTY, PLANT AND EQUIPMENT — continued

- i) The group's leasehold land and buildings comprise:

	2006	2005
	HK\$'000	HK\$'000 (restated)
Properties held under long lease		
– in Hong Kong	538	55,973
– overseas	671	705
	1,209	56,678

- ii) At 31st March, 2006, the group had pledged its leasehold land and buildings with aggregate net book value of HK\$1,209,000 (2005: HK\$1,258,000) to secure the group's general banking facilities.
- iii) The analysis of net book value as at 1st April, 2004 was as follows:

	Leasehold land and buildings	Motor vehicles	Computer equipment	Office equipment, leasehold improvements and furniture and fixtures	Moulds	Plant and machinery	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation	43,829	2,398	5,172	19,719	2,133	987	74,238
Currency realignment	242	–	(6)	13	–	–	249
Accumulated depreciation	(574)	(1,524)	(4,088)	(15,851)	(252)	(197)	(22,486)
Net book value (as restated)	<u>43,497</u>	<u>874</u>	<u>1,078</u>	<u>3,881</u>	<u>1,881</u>	<u>790</u>	<u>52,001</u>

- iv) Included in the group's leasehold land and buildings with aggregate cost and valuation of HK\$43,829,000 is leasehold land and buildings held under long lease with a revalued amount of HK\$42,214,000 at 1st April, 2004. As the related prepaid operating lease payments cannot be allocated reliably between the land and buildings elements. The entire lease payments are included in the leasehold land and buildings as a finance lease in property, plant and equipment in accordance with the provision of HKAS 17. Such leasehold land and buildings had been disposed of during the year.
- v) The total cost of property, plant and equipment disposed of or written off during the year ended 31st March, 2006 was HK\$56,149,000 (2005: HK\$14,779,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

18. INVESTMENT PROPERTIES

	The group
	HK\$'000
Cost	
At 1st April, 2004 (as restated)	21,588
Addition/disposal	—
At 31st March, 2005	<u>21,588</u>
Accumulated depreciation	
At 1st April, 2004 (as restated)	3,230
Charge for the year	540
At 31st March, 2005	<u>3,770</u>
Net book value at 31st March, 2005	<u><u>17,818</u></u>
Cost	
At 1st April, 2005 (as restated)	21,588
Additions	10,050
Disposals	(14,603)
At 31st March, 2006	<u>17,035</u>
Accumulated depreciation	
At 1st April, 2005 (as restated)	3,770
Charge for the year	426
Written back on disposal	(3,072)
At 31st March, 2006	<u>1,124</u>
Net book value at 31st March, 2006	<u><u>15,911</u></u>
Fair value at 31st March, 2006	<u><u>15,800</u></u>
Fair value at 31st March, 2005	<u><u>34,501</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

18. INVESTMENT PROPERTIES — continued

In the current year, the group has, for the first time, applied HKAS 40. The group has elected to use cost model to account for its investment properties which requires the investment properties stated at cost less accumulated depreciation and any impairment losses.

Included in the group's investment properties with aggregate cost of HK\$21,588,000 is an investment property held under long lease with a cost of HK\$7,902,000 at 1st April, 2004. As the related prepaid operating lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in investment properties as a finance lease in accordance with the provision of HKAS 17. Such investment property had been disposed of during the year.

The fair value of the group's investment properties at 31st March, 2005 and 2006 has been arrived at the basis of the valuations carried out by LCH (Asia-Pacific) Surveyors Limited, an independent firm of professional property valuer. Valuations were made on the basis of investment approach by capitalising the net rental income receivable from the existing tenancies and the reversionary rental income potentials.

The group's investment properties comprise:

	The group	
	2006 HK\$'000	2005 HK\$'000 (restated)
Properties in Hong Kong		
– Long lease	14,692	17,359
– Medium-term lease	446	459
	15,138	17,818
Property in Mainland China		
– Medium-term lease	773	–
	15,911	17,818

The investment properties of the group are rented out under operating lease.

The group has pledged some of its investment properties with aggregate carrying value of HK\$14,692,000 (2005: HK\$12,025,000 (as restated)) to secure the company's general banking facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

19. LEASEHOLD LAND

	The group
	HK\$'000
At 1st April, 2004 (as restated)	45,853
Currency realignment	9
Amortisation of prepaid operating lease payments	(382)
	<u>45,480</u>
At 31st March, 2005	<u>45,480</u>
At 1st April, 2005 (as restated)	45,480
Currency realignment	(2)
Additions	63,056
Disposals	(42,856)
Amortisation of prepaid operating lease payments	(609)
	<u>65,069</u>
At 31st March, 2006	<u>65,069</u>

	The group	
	2006	2005
	HK\$'000	HK\$'000
Leasehold land in Hong Kong		
Long lease	60,543	44,956
Medium-term lease	196	200
Leasehold land in Mainland China		
Medium-term lease	4,014	–
Leasehold land in Overseas		
Long lease	316	324
	<u>65,069</u>	<u>45,480</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

19. LEASEHOLD LAND — continued

The interests in leasehold land represent prepaid operating lease payments. Leasehold land with aggregate carrying value of HK\$60,859,000 (2005: HK\$45,280,000) are pledged to secure the company's general banking facilities.

	The group	
	2006	2005
	HK\$'000	HK\$'000
Analysed for reporting purposes as		
Non-current portion	64,460	45,099
Current portion included in debtors, deposits and prepayments	609	381
	<u>65,069</u>	<u>45,480</u>

20. GOODWILL

At 31st March, 2005

	HK\$'000
<hr/>	
At 31st March, 2004	
Cost	4,759
Accumulated amortisation and impairment losses	(900)
	<hr/>
Net carrying amount	3,859
Amortisation and impairment losses provided during the year	(3,859)
	<hr/>
Net carrying amount at 31st March, 2005	–
	<hr/> <hr/>
At 31st March, 2005	
Cost	4,759
Accumulated amortisation and impairment losses	(4,759)
	<hr/>
	–
	<hr/> <hr/>

At 31st March, 2006

Net carrying amount at 1st April, 2005	–
Arising on acquisition of a subsidiary during the year	3,601
Impairment losses recognised during the year	(3,601)
	<hr/>
Net carrying amount at 31st March, 2006	–
	<hr/> <hr/>
At 31st March, 2006	
Cost	3,601
Accumulated impairment losses	(3,601)
	<hr/>
	–
	<hr/> <hr/>

Due to the substantial operating loss sustained by the subsidiary acquired by the group during the year, the directors considered that the carrying amount of goodwill attributable to this subsidiary of HK\$3,601,000 at 31st March, 2006 was fully impaired. Accordingly, an impairment of goodwill of HK\$3,601,000 was charged to the consolidated income statement in the current year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

21. INTERESTS IN SUBSIDIARIES

	The company	
	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	163,654	163,654
Amounts due from subsidiaries	38,553	41,206
	202,207	204,860

The amounts due from subsidiaries are non-interest bearing, unsecured and have no fixed terms of repayment.

The fair value of amounts due from subsidiaries has not been determined as the timing of expected cash flows of this balance cannot be reasonably determined because of the relationship.

Particulars of the subsidiaries as at 31st March, 2006 are set out in note 43.

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The group		The company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Financial assets stated at fair value				
Equity securities listed in Hong Kong	5,989	—	—	—
Unlisted investment fund	3,417	—	—	—
Unlisted debt securities	3,878	—	3,878	—
	13,284	—	3,878	—
Financial assets stated at cost				
Unlisted debt securities	335	—	—	—
	13,619	—	3,878	—
Equity securities				
Corporate entities	5,989	—	—	—
Unlisted investment fund				
Bank	3,417	—	—	—
Unlisted debt securities				
Bank	3,878	—	3,878	—
Club debenture	335	—	—	—

Unlisted investment fund is pledged to secure the group's general banking facilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS — continued

The club debenture is accounted for at cost less accumulated impairment losses as such investment does not have a quoted market price in active markets and the range of reasonable fair value estimated is so significant that the directors are of the opinion that whose fair value cannot be reliably measured.

23. INVESTMENT IN SECURITIES

	The group		The company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Shares listed in Hong Kong, at cost	-	3,751	-	-
Unlisted investment fund, at cost	-	3,887	-	-
	-	7,638	-	-
Unlisted debt securities	-	3,862	-	3,862
	-	11,500	-	3,862
Market value of listed shares	-	5,259	-	-

During the year ended 31st March, 2005, the group had pledged its investment in unlisted investment fund to secure the group's general banking facilities.

24. INVENTORIES

	The group	
	2006 HK\$'000	2005 HK\$'000
Office telephone system, mobile phones and other electronic products	58,415	51,493

The cost of inventories recognised in the consolidated income statement during the year amounted to HK\$887,242,000 (2005: HK\$869,404,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

24. INVENTORIES — continued

The analysis of the amount of inventories recognised as an expense is as follows:

	The group	
	2006 HK\$'000	2005 HK\$'000
Carrying amount of inventories sold	882,413	865,492
Write-down of inventories	4,829	3,912
	887,242	869,404

25. DEBTORS, DEPOSITS AND PREPAYMENTS

The group has a policy of allowing average credit period ranging from two weeks to one month to its trade customers. In addition, for certain customers with long-established relationship and good past repayment history, a longer credit period may be granted.

The aged analysis of trade debtors of HK\$40,509,000 (2005: HK\$30,476,000) which are included in the group's debtors, deposits and prepayments is as follows:

	The group	
	2006 HK\$'000	2005 HK\$'000
0 – 30 days	27,173	18,818
31 – 60 days	4,836	2,938
61 – 90 days	2,885	2,796
91 – 120 days	1,265	752
Over 120 days	4,350	5,172
	40,509	30,476

The directors consider that the carrying amounts of debtors, deposits and prepayments approximate to their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The group	
	2006 HK\$'000	2005 HK\$'000
Analysis of financial assets at fair value through profit or loss:		
Held for trading		
– Equity securities listed in Hong Kong, at fair value	5,239	–
Designated as financial assets at fair value through profit or loss		
– Bank deposits with embedded derivatives, at fair value	22,430	–
	27,669	–

27. AMOUNT DUE FROM RELATED COMPANIES

The group

Particulars of the amount due from related companies are as follows:

Name of related companies	2006	2005	Maximum amount outstanding during the year
	HK\$'000	HK\$'000	HK\$'000
BIA Technology Limited	500	–	500
Hong Kong Communications Holdings Limited	1,016	1,016	1,016
	1,516	1,016	

The directors' interests in BIA Technology Limited are set out in note 42.

Messrs. Chan Chung Yee, Hubert, Chan Man Min and Chan Chung Yin, Roy have beneficial interests in Hong Kong Communications Holdings Limited.

The amount due from related companies are unsecured, interest free and repayable on demand.

The directors consider that the carrying amounts of the amounts due from related companies approximate to their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

28. DERIVATIVE FINANCIAL INSTRUMENTS

	The group	
	As at 31st March, 2006	
	Assets	Liabilities
	HK\$'000	HK\$'000
Equity contracts	150	128
Options	44	321
Forward currency contracts	–	543
	<u>194</u>	<u>992</u>

The carrying amounts of equity contracts, options and forward currency contracts are the same as their fair values.

Major terms of the derivative financial instruments are as follows:

Equity contracts

As at 31st March, 2006, the group had entered into certain derivative contracts for purchase of various equity with notional amount of HK\$16,696,000 in aggregate. These equity contracts will mature from 18th July, 2006 to 22nd March, 2007.

Options

As at 31st March, 2006, the group had written various currency options with notional amount of HK\$19,313,000 in aggregate and the expiry dates of which ranges from 7th April, 2006 to 7th July, 2006.

Forward currency contracts

Notional amount	Maturity	Exchange rate
Buy JPY229,200,000	31st May, 2006	USD/JPY 114.60
Buy JPY101,000,000	31st May, 2006	USD/JPY 101.00
Buy EUR500,000	8th August, 2006	EUR/USD 1.2085
Buy EUR1,000,000	8th August, 2006	EUR/USD 1.2085
Buy JPY23,450,000	5th April, 2006	USD/JPY 117.25
Buy JPY23,450,000	5th July, 2006	USD/JPY 117.25

During the year ended 31st March, 2005, the group did not enter into any equity contracts, options and forward currency contracts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

29. CASH AND BANK BALANCES

	The group		The company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Time deposits with banks	46,493	3,403	–	–
Cash and bank balances	27,737	37,248	729	1,026
	74,230	40,651	729	1,026
Less: Pledged long-term bank deposit (see note 41)	7,798	–	–	–
	66,432	40,651	729	1,026

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits earn interest at the respective short-term time deposits rates. The pledged long-term bank deposit is made for 10 years and earns interest at 6.5% per annum. The directors consider that the carrying amounts of the time deposits, cash and bank balances and the pledged deposit approximate to their fair values.

Included in the amounts of HK\$74,230,000 (2005: HK\$40,651,000) are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
United States Dollars	US\$5,805,000	nil
Japanese Yen	JPY2,855,000	nil

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

30. CREDITORS AND ACCRUED CHARGES

The aged analysis of trade creditors of HK\$25,102,000 (2005: HK\$23,115,000) which are included in the group's creditors and accrued charges is as follows:

	The group	
	2006 HK\$'000	2005 HK\$'000
0 – 30 days	18,411	21,371
31 – 60 days	1,751	893
61 – 90 days	480	851
Over 90 days	4,460	–
	<u>25,102</u>	<u>23,115</u>

The directors consider that the carrying amounts of creditors and accrued charges approximate to their fair values.

31. OBLIGATIONS UNDER FINANCE LEASES

	The group			
	Minimum lease payments		Present value of minimum lease payments	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Amounts payable under finance leases				
Within one year	34	38	29	33
In the second year	34	38	29	33
In the third to fifth year	63	93	55	80
	<u>131</u>	<u>169</u>	<u>113</u>	<u>146</u>
Less: Future finance charges	(18)	(23)		
Present value of finance leases	<u>113</u>	<u>146</u>		
Less: Amount due for settlement within one year shown under current liabilities			(29)	(33)
Amount due for settlement after one year			<u>84</u>	<u>113</u>

The directors consider that the carrying amounts of obligations under finance lease approximate to their fair values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

32. BANK BORROWINGS

	The group	
	2006 HK\$'000	2005 HK\$'000
Bank borrowings comprise:		
Bank overdrafts (unsecured)	68	–
Bank loans (secured)	28,411	22,157
	28,479	22,157

The directors consider that the carrying amounts of bank borrowings approximate to their fair values.

The maturity of the bank borrowings is as follows:

	The group	
	2006 HK\$'000	2005 HK\$'000
Due within one year	2,495	3,365
Due more than one year, but not exceeding two years	2,383	3,331
Due more than two years, but not exceeding five years	7,042	9,928
Due more than five years	16,559	5,533
	28,479	22,157
Less: Amount due within one year shown under current liabilities	2,495	3,365
Amount due after one year	25,984	18,792

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

33. DEFERRED TAX

The followings are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

Deferred tax liabilities:

	The group			
	Accelerated tax depreciation	Revaluation of leasehold land and buildings	Tax losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2004 (as restated)	1,407	5,470	(375)	6,502
Charged/(credited) to consolidated income statement	299	–	(188)	111
Credited to equity	–	(5,470)	–	(5,470)
At 31st March, 2005	1,706	–	(563)	1,143
(Credited)/charged to consolidated income statement	(702)	–	287	(415)
At 31st March, 2006	<u>1,004</u>	<u>–</u>	<u>(276)</u>	<u>728</u>

Deferred tax assets:

	The group Deductible temporary differences HK\$'000
At 1st April, 2004	58
Charged to consolidated income statement	(11)
At 31st March, 2005 and 1st April, 2005	47
Charged to consolidated income statement	(6)
At 31st March, 2006	<u>41</u>

33. DEFERRED TAX — continued

Deferred tax assets: — continued

At the balance sheet date, the group has unused tax losses of HK\$34,795,000 (2005: HK\$20,995,000) available to offset against future profits. A deferred tax asset has been recognised in respect of HK\$1,580,000 (2005: HK\$3,219,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$33,215,000 (2005: HK\$17,776,000) due to the unpredictability of future profit streams.

At the balance sheet date, the company has unused tax losses of HK\$2,927,000 (2005: HK\$1,616,000) available to offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The tax losses can be carried forward to offset against the taxable profits of subsequent years. There is no restriction on their expiry depending on the tax jurisdiction concerned.

34. SHARE CAPITAL

	Number of shares		Amount	
	2006	2005	2006 HK\$'000	2005 HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning of the year				
and at end of the year	<u>2,000,000,000</u>	<u>2,000,000,000</u>	<u>20,000</u>	<u>20,000</u>
Issued and fully paid:				
At beginning of the year	<u>460,773,603</u>	449,637,603	<u>4,608</u>	4,496
Exercise of share options	<u>1,296,000</u>	11,136,000	<u>13</u>	112
At end of the year	<u>462,069,603</u>	<u>460,773,603</u>	<u>4,621</u>	<u>4,608</u>

During the year ended 31st March, 2006, certain employees of the group exercised some of the options granted to them to subscribe for ordinary share of HK\$0.01 each. Details of the company's share option scheme are set out in note 35 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

35. SHARE OPTION SCHEME

The company's share option scheme (the "Scheme") was adopted by a written resolution passed on 23rd October, 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the group. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for shares of the company.

- i) any eligible employee of the company, any of its subsidiaries or any entity ("Invested Entity");
- ii) any non-executive directors (including independent non-executive directors) of the company, any of its subsidiaries or any Invested Entity;
- iii) any supplier of goods or services to any member of the group or any Invested Entity;
- iv) any customer of the group or any Invested Entity;
- v) any person or entity that provides research, development or other technological support to the group or any Invested Entity;
- vi) any shareholder of any member of the group or any Invested Entity or any holder of any securities issued by any member of the group or any Invested Entity; and
- vii) any other group or classes of participants from time to time determined by the director as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the group.

and for the purposes of the Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the company for the subscription of shares of the company or other securities of the group to any person who fall within any of the above classes of participants shall not, by itself, unless the directors otherwise determined, be construed as a grant of option under the Scheme.

The eligibility of any of the above class of participants to the grant of any options shall be determined by the directors from time to time.

35. SHARE OPTION SCHEME — continued

An option may be accepted by a participant upon payment of HK\$1 per option and within such time as may be specified in the offer for grant of the option, which shall not be later than 21 days of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors at the time of such grant to each grantee, which period may commence on the date of acceptance of the offer for the grant of option but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions of early termination thereof. The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in daily quotations sheet of the Stock Exchange on the date of the offer for grant; (ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the group must not in aggregate exceed 30% of the relevant class of securities of the company (or any of its subsidiaries) in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the group shall not exceed 10% of the shares of the company in issue as at the date of which dealing in the shares of the company on the Stock Exchange, without prior approval from the company's shareholders. The number of shares in respect of which options may be granted to any participant in any 12 month period is not permitted to exceed 1% of the shares of the company in issue at any point in time, without prior approval from the company's shareholders. Options granted to directors, chief executives or substantial shareholders of the company or any of their respective associates (as defined under Listing Rules) must be approved by independent non-executive directors of the company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12 month period up to and including the date of such grant in excess of 0.1% of the shares of the company in issue and with a value in excess of HK\$5 million must be approved in advance by the company's shareholders.

Share options do not confer rights on the holders to dividends or to vote at Shareholders' meeting.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

35. SHARE OPTION SCHEME — continued

Movements in the options to subscribe for shares for the year ended 31st March, 2006 are as follows:

Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1st April, 2005	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31st March, 2006	Price of company's shares			
								At date of grant HK\$	Immediate before exercise date HK\$	At date of exercise HK\$	
Directors											
Chan Chung Yee, Hubert	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	4,300,000	–	–	4,300,000	0.280	–	–
Chan Chung Yin, Roy	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	2,000,000	–	–	2,000,000	0.280	–	–
Chan Man Min	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–
Chan Ming Him, Denny	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–
Tsui Hon Wing	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–
Wu Kwok Lam	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–
Yeh Yui Fong	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	1,000,000	–	–	1,000,000	0.280	–	–
			–	11,300,000	–	–	–	11,300,000			
Employees											
	4.5.2004	4.11.2004 – 3.5.2006	0.196	2,564,000	–	–	–	2,564,000	0.200	–	–
	4.5.2004	4.11.2004 – 3.5.2006	0.196	484,000	–	(484,000)	–	–	0.200	0.320	0.320
	4.5.2004	4.11.2004 – 3.5.2006	0.196	324,000	–	(324,000)	–	–	0.200	0.310	0.320
	4.5.2004	4.11.2004 – 3.5.2006	0.196	352,000	–	(352,000)	–	–	0.200	0.300	0.310
	4.5.2004	4.11.2004 – 3.5.2006	0.196	112,000	–	(112,000)	–	–	0.200	0.270	0.270
	4.5.2004	4.11.2004 – 3.5.2006	0.196	24,000	–	(24,000)	–	–	0.200	0.270	0.270
	17.6.2005	17.12.2005 – 16.6.2007	0.284	–	11,100,000	–	(2,100,000)	9,000,000	0.280	–	–
			–	3,860,000	11,100,000	(1,296,000)	(2,100,000)	11,564,000			
				<u>3,860,000</u>	<u>22,400,000</u>	<u>(1,296,000)</u>	<u>(2,100,000)</u>	<u>22,864,000</u>			

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using The Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the option were granted. The following table lists the inputs to the model for the year ended 31st March, 2006:

	2006
Weighted average share price	HK\$0.280
Exercise price	HK\$0.284
Expected volatility	39%
Expected life	1.5 years
Risk-free rate	5%
Expected dividend yield	3.51%

Expected volatility was only determined by using the historical volatility of the company's share price over the previous years. It may not necessarily be the actual outcome. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral consideration.

During the year ended 31st March, 2006, share options were granted on 17th June, 2005. The group recognised the total expense of HK\$1,047,000 for the year ended 31st March, 2006 (2005: nil) in relation to share options granted by the company.

36. RESERVES

The group

The amounts of the group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27.

The company

	Share premium	Special reserve	Share option reserve	Investment revaluation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April, 2004	29,535	163,453	–	–	5,661	198,649
Exercise of share option	1,804	–	–	–	–	1,804
Net profit for the year	–	–	–	–	9,175	9,175
Dividend paid	–	–	–	–	(4,496)	(4,496)
At 31st March, 2005	31,339	163,453	–	–	10,340	205,132
Opening balance adjustment arising from adoption of HKAS 39	–	–	–	35	–	35
At 1st April, 2005 (as restated)	31,339	163,453	–	35	10,340	205,167
Equity-settled share – based transactions	–	–	1,047	–	–	1,047
Change in fair values of available-for-sale financial assets	–	–	–	(19)	–	(19)
Exercise of share option	241	–	–	–	–	241
Net profit for the year	–	–	–	–	18,847	18,847
Dividend paid	–	–	–	–	(23,098)	(23,098)
At 31st March, 2006	<u>31,580</u>	<u>163,453</u>	<u>1,047</u>	<u>16</u>	<u>6,089</u>	<u>202,185</u>

The special reserve of the company represents the difference between the aggregate net assets of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the company's shares issued for the acquisition prior to the listing of the company's shares in 2001.

The company's reserves available for distribution represent the share premium, special reserve, share option reserve and retained profits. Under the Companies Laws of the Cayman Islands, the share premium of the company is available for paying distributions or dividends to shareholders subject to the provisions of Memorandum and Articles of Association and provided that immediately following the distribution or dividend the company is able to pay its debt as they fall due in the ordinary course of business. The company's reserves available for distributions to shareholders as at 31st March, 2006 amounted to HK\$202,169,000 (2005: HK\$205,132,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

37. CAPITAL COMMITMENTS

	The group	
	2006	2005
	HK\$'000	HK\$'000
Contracted for but not provided in the financial statements		
Acquisitions of investment properties	-	58,318
Acquisitions of property, plant and equipment	-	157
	<u>-</u>	<u>58,475</u>

38. OPERATING LEASE ARRANGEMENTS

The group as lessee:

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The group	
	2006	2005
	HK\$'000	HK\$'000
Within one year	2,828	764
In the second to fifth years, inclusive	2,530	420
	<u>5,358</u>	<u>1,184</u>

Operating lease payments represent rentals payable by the group for its office premises and shops. Leases are negotiated for terms ranging from one to five years (2005: two to five years). In addition to the minimum rental payments disclosed above, the group has commitments to pay additional rent of a proportion of turnover for certain leased shops if the turnover generated from these leased shops exceeds the predetermined levels. Contingent rentals are not included in the above commitments as it is not possible to estimate the amounts which may be payable.

The group as lessor:

Property rental income earned during the year was HK\$211,400 (2005: HK\$1,607,000). The properties held have committed tenants in the range of three years (2005: from one to three years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

38. OPERATING LEASE ARRANGEMENTS — continued

At the balance sheet date, the group had contracted with tenants for the following minimum lease receivable under non-cancellable operating leases in respect of rented premises which fall due as follows:

	The group	
	2006 HK\$'000	2005 HK\$'000
Within one year	211	408
In the second to fifth years, inclusive	—	211
	<u>211</u>	<u>619</u>

39. NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Acquisition of a subsidiary:

	2006 HK\$'000	2005 HK\$'000
Net assets acquired:		
Property, plant and equipment	116	—
Inventories	1,320	—
Debtors, deposits and prepayments	381	—
Bank balances and cash	455	—
Creditors and accrued charges	(373)	—
	<u>1,899</u>	—
Goodwill on acquisition	3,601	—
	<u>5,500</u>	—
Satisfied by:		
Cash consideration	<u>5,500</u>	—
Analysis of net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:		
Cash consideration	(5,500)	—
Bank balances and cash acquired	455	—
	<u>(5,045)</u>	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

40. CONTINGENT LIABILITIES

	The group		The company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Banking facilities to subsidiaries in respect of which guarantees were given	-	-	74,000	86,740
Credit facilities from third parties in respect of which guarantees were given	20,000	40,000	-	-
Corporate guarantee to an independent landlord in respect of shop premises leased to a subsidiary	-	-	-	160
	20,000	40,000	74,000	86,900

41. PLEDGE OF ASSETS

As at 31st March, 2006, the company's banking facilities were secured by a bank deposit of HK\$7,798,000 (2005: Nil) and first legal charge on certain leasehold land and buildings and investment properties with aggregate carrying amount of HK\$76,760,000 (2005: HK\$58,562,000 (as restated)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

42. RELATED PARTY TRANSACTIONS

- a) During the year, the group had the following transactions, which were conducted in the ordinary course of the group's business, with its related companies:

Name of related company	Notes	Nature of transactions	2006 HK\$'000	2005 HK\$'000
HKC Intown Limited	(i)	Internet access fee paid	169	114
Hong Kong Communications Computer Company Limited	(i)	Computer software maintenance fee and purchase of computer hardware	246	362
	(ii)	Rental income	304	180
BIA Technology Limited	(i)	Purchase of goods from	724	3,362
	(ii)	Rental income	46	36
Koywa HKC Company Limited	(iii)	Rental expenses	-	79
			1,185	4,033

Mr. Chan Chung Yin, Roy, director of the company, has beneficial interest in all the above-named companies.

Messrs. Chan Chung Yee, Hubert and Chan Man Min, directors of the company, have beneficial interests in Hong Kong Communications Computer Company Limited, BIA Technology Limited and Koywa HKC Company Limited.

Messrs. Tsui Hon Wing and Yeh Yui Fong, directors of the company, have beneficial interests in BIA Technology Limited.

- b) During the year, one of the subsidiary of the company acquired 40% equity interest in other subsidiary, HKC Mobile Technology Limited from Ms. Yip Wai Man, Joe and Ms. Ip Wai In with the consideration of HK\$5,500,000. As a substantial shareholder of HKC Mobile Technology Limited, Ms. Yip was a connected person of the company under the Listing Rules. As an associate of Ms. Yip, Ms. Ip was also a connected person of the company.

- c)

	2006 HK\$'000	2005 HK\$'000
Key management personnel compensation		
– Salaries and other short-term employee benefits	3,463	2,722
– Post-employment benefits	72	72
	3,535	2,794

- d) Details of the balances with related companies are set out in note 27 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

42. RELATED PARTY TRANSACTIONS — continued

Notes:

- (i) These transactions were based on cost plus a percentage of profit mark-up.
- (ii) Rental income was charged based on the area used, which management considered to be an appropriate basis of allocation.
- (iii) Rental expense was charged at prevailing market rates.

43. SUBSIDIARIES

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

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid ordinary/registered share capital	Percentage of effective interest attributable to the group	Principal activities
HKC Group Limited	British Virgin Islands	Hong Kong	Ordinary shares US\$100,000	100%	Investment holding
HKC Properties Limited	British Virgin Islands	Hong Kong	Ordinary shares US\$30	100%	Investment holding
Superior Charm Limited	British Virgin Islands	Hong Kong	Ordinary shares US\$1,200	100%	Investment holding
Hong Kong Communications Equipment Company Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,560	100%	Sales and distribution of mobile phones and business solutions
Circle Mobile Communications Limited	Hong Kong	Hong Kong	Ordinary shares HK\$1,000,000	100%	Sales of mobile phones and other electronic products
Generalvestor (H.K.) Limited	Hong Kong	Hong Kong	Ordinary shares HK\$10,000,000	100%	Property investment

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

43. SUBSIDIARIES — continued

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid ordinary/registered share capital	Percentage of effective interest attributable to the group	Principal activities
HKC Technology Limited	Hong Kong	Hong Kong	Ordinary shares HK\$6,000,100	100%	Research and development
HKC International (Thailand) Co. Ltd.	Thailand	Thailand	Preference shares THB 1,499,990 Ordinary shares THB 1,500,010	100%	Sales and distribution of mobile phones
Singapore Communications Equipment Co. (Pte) Ltd.	The Republic of Singapore	Singapore	Ordinary shares S\$160,000	100%	Sales and distribution of business solutions
HKC Technology (USA) Inc. (Formerly, Circle Communication Products, Inc.)	United States of America	United States of America	Ordinary shares US\$15,000	100%	Sales and distribution of telecommunication products
HKC International (M) Sdn Bhd	Malaysia	Malaysia	Ordinary shares RM250,000	98%	Sales and distribution of mobile phones and its related accessories
Circle Mobile Communications (M) Sdn Bhd	Malaysia	Malaysia	Ordinary shares RM500,000	100%	Sales and distribution of telecommunication products
上海希華通訊科技有限公司 (note 1) (HKC Technology (Shanghai) Co. Ltd.)	PRC	PRC	Registered capital US\$550,000	100%	Sales and distribution of business solutions

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

43. SUBSIDIARIES — continued

Name	Place of incorporation/ registration	Principal place of operation	Issued and fully paid ordinary/registered share capital	Percentage of effective interest attributable to the group	Principal activities
亞衛通智能系統 (上海)有限公司 (note 2) (ASCT Technology Co. Ltd.)	PRC	PRC	Registered capital US\$610,000	80%	Development and sales of telecommunication system and other high-tech products
HKC Mobile Technology Limited	Hong Kong	Hong Kong	Ordinary shares HK\$20,000,000	100%	Sales and distribution of mobile phones
Global Export (Macao Commercial Offshore) Ltd.	Macau	Macau	Contributed capital MOP 100,000	100%	Dormant
HKC Comunicacoes Equipamento (Macau) Companhia Limitada	Macau	Macau	Contributed capital MOP 100,000	100%	Sales and distribution of business solution

The company directly holds the interest in HKC Group Limited. All other interests shown above are indirectly held by the company.

None of the subsidiaries had any debt securities subsisting at 31st March, 2006 or at any time during the year.

Note 1: The subsidiary is a wholly foreign owned enterprise.

Note 2: The subsidiary is a sino-foreign owned enterprise.

FINANCIAL SUMMARY

For the year ended 31st March, 2006

	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000
RESULTS					
Turnover	<u>726,717</u>	<u>821,405</u>	<u>954,137</u>	<u>974,056</u>	<u>1,002,490</u>
Profit before taxation	26,050	13,482	1,561	18,157	78,075
Tax expense	<u>(3,668)</u>	<u>(2,708)</u>	<u>(1,340)</u>	<u>(7,003)</u>	<u>(5,775)</u>
Profit for the year	<u>22,382</u>	<u>10,774</u>	<u>221</u>	<u>11,154</u>	<u>72,300</u>
Attributable to equity holders of the company	20,912	10,867	523	11,304	72,174
Minority interests	<u>1,470</u>	<u>(93)</u>	<u>(302)</u>	<u>(150)</u>	<u>126</u>
	<u>22,382</u>	<u>10,774</u>	<u>221</u>	<u>11,154</u>	<u>72,300</u>
ASSETS AND MINORITY INTERESTS					
Total assets	232,722	276,980	276,492	290,874	326,864
Total liabilities	<u>(33,665)</u>	<u>(83,628)</u>	<u>(80,994)</u>	<u>(82,301)</u>	<u>(65,901)</u>
Minority interests	<u>–</u>	<u>(378)</u>	<u>(557)</u>	<u>(407)</u>	<u>(533)</u>
	<u>199,057</u>	<u>192,974</u>	<u>194,941</u>	<u>208,166</u>	<u>260,430</u>

Note:

Certain comparative figures for the year ended 31st March, 2005 have been restated to reflect the adoption of new/ revised Hong Kong Financial Reporting Standards. The comparative figures for the three years ended 31st March, 2002, 2003 and 2004 have not been restated as the directors consider that this would involve undue delay and expense.

PARTICULARS OF INVESTMENT PROPERTIES

Location	Type	Lease term
Block B on 14th Floor Vita Tower No. 29 Wong Chuk Hang Road Wong Chuk Hang Hong Kong	Industrial	Long lease
Workshop 05 on 5th Floor Kwong Sang Hong Centre Nos. 151-153 Hoi Bun Road Kwun Tong Kowloon Hong Kong	Industrial	Medium-term lease
The whole of 11th Floor AXA Center No. 151 Gloucester Road Wanchai Hong Kong	Commercial	Long lease
Flat 19B on Level 19 Sea of Clouds Gardens No. 138 Qing Hai Road Jingan District Shanghai	Residential	Medium-term lease

PARTICULARS OF LEASEHOLD LAND AND BUILDINGS

Location	Type	Lease term
Block A on 14th Floor Vita Tower No. 29 Wong Chuk Hang Road Wong Chuk Hang Hong Kong	Industrial	Long lease
The whole of the strata unit #02-09 Kewalram House No. 8, Jalan Kilang Timor Singapore	Industrial	Long lease