



建福集團控股有限公司
KENFORD GROUP HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 464) (Warrant Code: 452)



2006 ANNUAL REPORT



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Corporate Information

DIRECTORS

Executive Directors

Lam Wai Ming (*Chairman*)
Tam Chi Sang (*Managing Director*)
Chan Kwok Tung, Donny, *FCIS, FCS, ACIB, AHKIB*

Independent Non-Executive Directors

Chiu Fan Wa, *FCCA, FCPA (Practising), ACA, ACIS, ACS*
Li Chi Chung
Li Tat Wah

COMPANY SECRETARY

Chan Kwok Tung, Donny, *FCIS, FCS, ACIB, AHKIB*

QUALIFIED ACCOUNTANT

Chan Tsz Ping, *CPA, FCCA*

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1106-8, Riley House
88 Lei Muk Road, Kwai Chung
New Territories, Hong Kong

AUDITORS

BDO McCabe Lo Limited
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

WEBSITE

<http://www.kenford.com.hk>

STOCK CODE: 464

WARRANT CODE: 452

COMPLIANCE ADVISER

Partners Capital International Limited
Room 1305, 13th Floor
9 Queen's Road Central
Hong Kong

BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
George Town, Grand Cayman
Cayman Islands

PRINCIPAL BANKERS

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

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

Dah Sing Bank Limited
Dah Sing Financial Centre
108 Gloucester Road
Hong Kong

The Bank of East Asia Limited
10 Des Voeux Road Central
Hong Kong

Chairman's Statement

RESULTS

On behalf of the board of directors ("**Board**"), I am pleased to present the audited consolidated financial results of Kenford Group Holdings Limited ("**Company**") and its subsidiaries (together, the "**Group**") for the year ended 31 March 2006.

The fiscal year ended 31 March 2006 was a crucial year for many electrical household appliances manufacturers including the Group. Apart from the up soaring in raw material costs, rising labour costs in the PRC and the appreciating Renminbi imposed additional burden on the industry players. During the fiscal year, the Group achieved a turnover amounting to HK\$403.6 million, representing a reduction of 13% as compared with HK\$464.9 million for the previous fiscal year. Audited consolidated profit attributable to shareholders was HK\$4.1 million (2005: HK\$57.4 million), a decrease of 93% over the previous fiscal year. Basic earnings per share was HK1.094 cents (2005: HK19.13 cents), a decrease of 94% over the previous fiscal year.

DIVIDEND

Given that the Group continues to maintain a healthy liquidity for future potential development, the Directors have recommended the payment of a final dividend of HK0.3 cent per share. Together with the interim dividend of HK1 cent per share paid on 23 January 2006, a total dividend of HK\$0.013 per share would be payable for the year ended 31 March 2006.

BUSINESS STRENGTH IN MARKETS

Our business is principally engaged in the design, manufacture and distribution of a wide range of electrical hair care products, electrical health care products and other small household electrical appliances. The largest business, Electrical Hair Care Products, recorded sales revenue of HK\$379.4 million (2005: HK\$432.6 million), representing over 94% of the total turnover during the fiscal year. Europe continued to be our main geographical focus with the Group achieving revenue of HK\$261.8 million, accounting for 65% of the total turnover. Our sales in over ten countries in Europe, such as the UK, Italy and France, have clearly reflected the growing acceptance of our products by a larger pool of customers.

Unlocking the vast potential of overseas markets have always been our long-term imperatives of strategic value. During the fiscal year, the Group enjoyed the impressive revenue growth in the USA, resulted in 132% growth of our electrical hair care products business to HK\$82.2 million over the previous fiscal year. The Group's continuous expansion into the USA has been a key driver for the business growth. We have implemented a multi-directional development strategy which includes (1) proactive approach to product improvement; (2) implementing an efficient supply chain management system and (3) building up brand image. Moreover, with the effective marketing strategies, strategic business cooperation with renowned retail enterprises and the development of ODM business in China, our brand, Kario witnessed promising results in implementing a series of business improvement initiatives, which should eventually bear fruits in the future.

PURSUIT FOR THE BEST

The Group has strength in designing and developing innovative and trendy array of products: we gained the "Gold Award" and "Judges' Choice Award" in the category of "Electronic & Electrical Consumer Product" in the HKDA Awards 05, a large-scale competition in the Asia Pacific region. Also, we are pleased to have the invitation of the Hong Kong Trade Development to display our prize-winning product "Big Shot Professional Hairdryer with Ceramic Attachments HD 552" at the Hong Kong Pavillion of the Pan-PRD Regional Cooperation Forum and Trade Fair in Kunming, Yunnan from 6 to 10 June 2006.



Chairman's Statement

PROSPECT

Looking ahead, the persistent rises of the raw material costs, the surges of wages in the PRC operation, instability in electricity supply and an upward trend of Renminbi creep back as challenges to the industry. In response, we have passed part of the increased cost to our customers, re-engineered our manufacturing processes and improved our supply chain processes for saving costs purpose. We have upgraded an ERP system to deliver a more powerful data analysis at the back office.

To grip with the new requirements in electrical and electronic equipment (the WEEE and RoHS Directives), we have already well prepared and organized to deliver the quality products to our customers and to further enhance our market position. Given a solid foundation and putting shareholders' interests as its top priority, the Group will continue to seek opportunities for further expansion.

APPRECIATION

People play an important role in gaining competitive advantages. The Group focuses on building up a close relationship with our valuable staff members. I would like to express my sincere appreciation to our employees for all their hard work and passion in the past. Also, I would like to thank our shareholders, customers and suppliers for their support.

By Order of the Board

Lam Wai Ming

Chairman

Hong Kong, 14 July 2006

Management Discussion and Analysis

BUSINESS REVIEW

The financial year ended 31 March 2006 turned out to be a difficult year for the Group's electrical household appliances business. The Group suffered from a decline in gross profit margin because of continued increase in material and component costs. For the year ended 31 March 2006, turnover and net profit recorded HK\$403.6 million and HK\$4.1 million, respectively.

PROSPECTS

2005 has been an exciting and challenging year for the Group. Following our successful listing on the Stock Exchange of Hong Kong Limited ("Stock Exchange") on 16 June 2005, the Group has strength in designing and developing innovative and trendy array of products and this year, we gained "Gold Award" and "Judges' Choice Award" in the category of "Electronic & Electrical Consumer Product" in the HKDA Awards 05, a widely-recognised competition-cum-exhibition in the Asia Pacific region which is organised by the Hong Kong Designers Association. In addition, the construction of the plant is expected to be completed in 2007 and our production capacity is expected to be increased by approximately one-fourth to one-third thereafter.

The escalating raw material costs, increasing labour costs together with appreciating Renminbi created an unfavourable business condition for traditional electrical household appliances. To maintain our competitiveness, the Group has been continuing to focus on developing innovative products and expanding its markets. We will explore business opportunities in other new products categories and other niche markets. To stay in line with our future organic and/or generic growth in the market, we will explore appropriate acquisition opportunities in synergy with our business strategies to help us create greater value for our shareholders.

The Group has been implementing prudent cost control measures to cope with the challenging effects on its business continuously. At the same time, our management is considering appropriate solutions to minimize its risks in foreign exchange exposure. With the invaluable experience accumulated, market reputation established and extensive business networks built-up, the Group believes that its performance should be cautiously optimistic in the middle to long-run.

FINANCIAL REVIEW

Turnover

During the year, the Group recorded a turnover of HK\$403.6 million (2005: HK\$464.9 million), representing a decrease of approximately 13%. The turnover attributable to the sales of electrical hair care products accounted for approximately HK\$379.4 million, representing approximately 94% of the turnover of the Group. The last year's remarkable growth in demand for the hair straighteners slowed down during the year (which was one of the revenue drivers last year). The decrease in turnover was mainly attributed to the decrease in consumers' propensity to consume in relation to the overall market sentiment in the European markets. The turnover in the European market decreased by 23% whereas that in the American market increased by 132%.

Gross Profit

Our gross profit margin was approximately 11.6% (2005: 20.3%). The deterioration was due to the less than proportionate decrease in cost of goods sold over the decrease in turnover. The soaring cost during the year was because of the escalating costs of materials and components and the general increase in average labour cost in the Dongguan region, the PRC. The escalating oil price and metal cost imposed additional burden on material costs, especially polycarbonate ("PC") materials and power cords. To accelerate the effect, the utilization rate of PC materials for the year was especially higher than that of last year because of the proportionate increase in sale of traditional hair dryers.

Management Discussion and Analysis

FINANCIAL REVIEW (Continued)

Expenses

During the year, selling and distribution expenses of the Group were approximately HK\$8.3 million (2005: HK\$8.0 million), representing approximately 2.1% (2005: 1.7%) of the total turnover. The slight increase was because of the increase in transportation and declaration charges. During the year, administrative expenses of the Group were approximately HK\$36.5 million (2005: HK\$31.7 million). The increase was mainly due to the higher management costs resulting from the compliance of the Rules Governing the Listing of Securities on the Stock Exchange (Main Board) (“the Listing Rules”) following the listing of the Company’s shares (“Shares”) and the warrants of the Company (“Warrants”) on the Stock Exchange (together the “Securities”) and the effect of application of new HKFRSs. During the year, finance cost of the Group was approximately HK\$5.7 million (2005: HK\$3.9 million). The increase was mainly due to the general increase in market interest rates.

CAPITAL STRUCTURE

The net proceeds from our initial public offering (“IPO”) completed in June 2005 further strengthen our capital structure and we expect our cash to be sufficient for meeting our operating and capital expenditure requirements in the foreseeable future. The market capitalization of the Company as at 31 March 2006 was approximately HK\$120 million.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, apart from the internally generated resources and banking facilities, the Group also raised net proceeds of HK\$36,500,000 from the public offer and placing of new shares under the IPO. As at 31 March 2006, the Group had approximately HK\$63.3 million cash and cash equivalents balances (31 March 2005: HK\$77.2 million). The Group’s net current assets were approximately HK\$47.3 million as at 31 March 2006 (31 March 2005: HK\$6.7 million). The gearing ratio as at 31 March 2006 was 34.1% (bank borrowings including bank advances for discounted bills due to adoption of HKAS39) while that as at 31 March 2005 was 34.6% (bank borrowings excluding bank advances for discounted bills due to no retrospective application under HKAS 39). The Group has been maintaining a healthy liquidity position and has sufficient financial resources to meet the requirements of its ordinary operation and capital expenditure.

ISSUE OF SHARES AND USE OF THE PROCEEDS FROM THE IPO

In June 2005, the Company issued 100,000,000 ordinary shares pursuant to the IPO, raising net proceeds of approximately HK\$36,500,000. During the year, the proceeds were used in the following manner:

- approximately HK\$2.0 million was used for the research and development of electrical hair care products;
- approximately HK\$4.0 million was used for installation of machinery and equipment;
- approximately HK\$1.0 million was used as the Group’s general working capital;
- approximately HK\$0.1 million was used for penetration and further expansion into new and existing markets; and
- the remaining portion of the net proceeds was placed with banks in Hong Kong as short-term deposits.

Up to the date of this report, no subscription rights attaching to the Warrants have been exercised and hence no cash proceeds have been raised therefrom by the Company.

Management Discussion and Analysis

CHARGE ON ASSETS

The charge on leasehold land and buildings having a net book value of approximately HK\$13.1 million (31 March 2005: HK\$11.8 million) had been charged to secure general banking facilities granted to the Group and had been released during the year.

CONTINGENT LIABILITIES

- (i) A High Court action was commenced by WIK Far East Limited (the “WIK”) against a subsidiary of the Company on 27 April 2004 in respect of alleged infringements of a patent in respect of retractable brushes.

The Board has confirmed that no settlement has been reached by the parties and no judgements on the quantum of damages had been made against the Group in respect of the legal action. The Group has sought legal advice from its legal counsel on the merits of the claim.

According to the legal counsel’s opinion, given that the trial has not yet commenced and the parties are still at a pre-mature stage of the litigation, and in the absence of any indication as to how WIK would like to proceed with its claim, it would not be possible to quantify reliably the likely potential damages and cost to be incurred by the Group in the event that the subsidiary of the Group fails in its defense to the claim of patent infringement in the litigation. Assuming that WIK will claim for damages for loss of profits or for accounts of profits, the Board is of the view that the quantum of the ultimate cost and damages (if any) to be incurred by the Group will not have a material adverse impact on the Group’s financial position.

In the event that a liability has arisen from the litigation, the controlling shareholders of the Company have jointly and severally agreed and undertaken to indemnify the Group from and against any of such liability.

- (ii) The Company has executed guarantees amounting to approximately HK\$164,000,000 (2005: Nil) with respect to banking facilities made available to its subsidiaries. As at 31 March 2006, the borrowings outstanding against the facilities amounted to approximately HK\$81,423,000 (2005: Nil).

FOREIGN EXCHANGE EXPOSURE

The Group’s sales are mainly denominated in US dollars while purchases are principally denominated in HK dollars, US dollars and Japanese Yen. The Group’s certain costs are denominated in Renminbi. Since HK dollars has been pegged to US dollars, the Group’s exposure to the currency risk in US dollars was minimal. Since 21 July 2005, Renminbi has been pegged to a basket of currencies and this resulted in Renminbi appreciating against the US dollars. Most of the Group’s liquid fund is placed in principal guaranteed short-term dual currencies deposits in various banks during the year.

STAFF AND REMUNERATION POLICIES

As at 31 March 2006, the Group employed approximately 53 Hong Kong staff and operates a defined contribution pension scheme. Our factory in China employed varied from 2,300 to 3,300 which included the staff and seasonal workers during the financial year ended 31 March 2006.

People are our most important assets and are indispensable to our success in the competitive marketplace. We offer comprehensive remuneration packages level and provide various fringe benefits, including trainings, medical, insurance coverage as well as retirement benefits.

The Group has adopted a pre-IPO share option scheme and a share option scheme (details set out under the heading “Share Option Scheme”) for the purposes of providing incentives and rewards to eligible participants who have contributed to the success of our operations.

Report of The Directors

The board of directors (the “**Board**”) of Kenford Group Holdings Limited (the “**Company**”) herein present the annual report and the audited financial statements (the “**Financial Statements**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2006.

GROUP REORGANISATION, SUBSIDIARIES AND BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 10 November 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to the Group reorganisation (“**Reorganisation**”) as detailed in section B headed “Corporate Reorganisation” in Appendix VIII to the prospectus dated 31 May 2005 (“**Prospectus**”) of the Company in preparation of the listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (“**Stock Exchange**”), the Company became the holding company of other companies now comprising the Group on 23 March 2005. Further details of the Reorganisation as well as the basis of preparation of the Financial Statements are set out in Notes 1 and 2 to the Financial Statements.

Following the completion of the Reorganisation and the public offer and placing of the Company’s shares as set out in the Prospectus, the Company’s shares were listed on the Stock Exchange on 16 June 2005.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in Note 17 to the Financial Statements.

An analysis of the Group’s performance for the year by business and geographical segments is set out in Note 6 to the Financial Statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2006 are set out in the Consolidated Income Statement on page 29.

An interim dividend of HK1 cent per share of the Company amounting to HK\$4 million was paid to the shareholders of the Company during the year.

The Board now recommends the payment of a final dividend of HK0.3 cent per share to the shareholders of the Company on the register of members of the Company on Friday, 8 September 2006, amounting to approximately HK\$1.2 million. Subject to the approval of shareholders with regard to the proposed payment of the final dividends at the forthcoming annual general meeting, the dividend warrants will be dispatched to shareholders on or about Friday, 22 September 2006.

CLOSURE OF REGISTER OF MEMBERS AND REGISTER OF WARRANTHOLDERS

The register of members and the register of warrantholders of the Company will be closed from Tuesday, 5 September 2006 to Friday, 8 September 2006, both days inclusive, during which period no transfer of shares/warrants and no share of the Company to be issued upon exercise of any subscription right attaching to the outstanding warrants issued by the Company will be registered. In order to qualify for the proposed final dividend or to ascertain the right to attend the forthcoming annual general meeting of the Company, all transfers of shares and/or exercise of the subscription rights of the outstanding warrants, duly accompanied by the relevant share certificates, and the appropriate transfer forms and/or in the case of warrantholders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies, must be lodged for registration with the Company’s share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 4 September 2006. The last day in Hong Kong of dealings in Company’s shares with entitlement to final dividend will be on Thursday, 31 August 2006. Shares of the Company will be traded ex-dividend as from Friday, 1 September 2006. Warrantholders who wish to convert their warrants into shares in order to qualify for the proposed final dividend must lodge the duly completed subscription form together with the relevant warrant certificates accompanied by the subscription monies with the Company’s Registrar not later than 4:00 p.m. on Monday, 4 September 2006.

Report of The Directors

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 to the Financial Statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in the issued share capital, share options and warrants of the Company during the year are set out in Note 25 to the Financial Statements.

RESERVES

Details of the movements in the reserves of the Group during the year are set out on page 33.

DIRECTORS

The directors of the Company (the “**Directors**”) who held office during the year and up to the date of this report were:

Executive Directors:

Lam Wai Ming (*Chairman*)

Tam Chi Sang (*Managing Director*)

Chan Kwok Tung, Donny

Independent Non-Executive Directors:

Chiu Fan Wa

Li Chi Chung

Li Tat Wah

In accordance with Article 87 of the Company’s articles of association, Mr Chan Kwok Tung, Donny and Mr Chiu Fan Wa will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

DIRECTORS’ AND SENIOR MANAGEMENT’S PROFILES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 20 to 21 of this annual report.

DIRECTORS’ SERVICE CONTRACTS

Mr Chan Kwok Tung, Donny, the Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 16 June 2005 and the aforesaid agreement may be terminated by not less than three months’ prior notice in writing served by either party on the other.

Mr Chiu Fan Wa, the Independent Non-Executive Directors, has entered into a letter of appointment with the Company commencing on the 16 June 2005 for a term of one year and shall continue until terminated by not less than one month’s prior notice in writing served by either party on the other.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting had entered into any service contracts with the Company, which were not determinable by the Company within one year without compensation (other than statutory compensation).

Report of The Directors

DIRECTORS' INTEREST AND CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in Note 35 to the Financial Statements, none of the Directors or controlling shareholders of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares of HK\$0.001 each in the share capital the Company (the "Shares") or the 100,000,000 warrants issued by the Company, in units of HK\$0.30 of the subscription rights to subscribe for up to 50,000,000 Shares at the initial subscription price of HK\$0.60 per Share at any time from 16 June 2005 to 13 June 2008 (both days inclusive) (the "Warrants") on the Stock Exchange (together the "Securities") during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO; or as notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he is taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") at the date of this report, were as follows:

Long position in the Securities of the Company

Name of Director	Nature of interest	Total number of Shares held in the Company	Percentage of issued Shares
Mr Lam Wai Ming	Corporate interest	275,400,000 (Note 1)	68.85%
Mr Tam Chi Sang	Corporate interest	275,400,000 (Note 2)	68.85%
Mr Chan Kwok Tung, Donny	Corporate interest	16,200,000 (Note 3)	4.05%

Notes:

(1) Mr Lam Wai Ming is taken to be interested in an aggregate of 275,400,000 Shares as follows:

(i) Mr Lam Wai Ming is taken to be interested in an aggregate of 244,800,000 Shares held by Achieve Best Limited ("Achieve Best") and Beaute Inc ("Beaute") respectively as to:

(a) 40,800,000 Shares are held by Achieve Best which is wholly-owned by Mr Lam Wai Ming and he is the sole director of Achieve Best. Mr Lam Wai Ming is therefore taken to be interested in 40,800,000 Shares that Achieve Best is interested;

Report of The Directors

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

Long position in the Securities of the Company (Continued)

Notes: (Continued)

- (b) 204,000,000 Shares are held by Beaute which is owned as to 50% by Apex Prima Limited ("**Apex Prima**") and 50% by Potentasia Holdings Inc ("**Potentasia**"). Apex Prima is wholly-owned by Mr Lam Wai Ming and Potentasia is wholly-owned by Mr Tam Chi Sang. Mr Lam Wai Ming is also a director of Beaute and the sole director of Apex Prima. Mr Lam Wai Ming is therefore taken to be interested in 204,000,000 Shares that Beaute is interested; and
- (ii) Mr Lam Wai Ming is taken to be interested in an aggregate of 30,600,000 Shares upon the exercise of the subscription rights attached to the 61,200,000 Warrants held by Achieve Best and Beaute respectively.
- (2) Mr Tam Chi Sang is taken to be interested in an aggregate of 275,400,000 Shares as follows:
- (i) Mr Tam Chi Sang is taken to be interested in an aggregate of 244,800,000 Shares held by Realchamp International Inc ("**Realchamp**") and Beaute respectively as to:
- (a) 40,800,000 Shares are held by Realchamp which is wholly-owned by Mr Tam Chi Sang and he is the sole director of Realchamp. Mr Tam Chi Sang is therefore taken to be interested in 40,800,000 Shares that Realchamp is interested;
- (b) 204,000,000 Shares are held by Beaute which is owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima is wholly-owned by Mr Lam Wai Ming and Potentasia is wholly-owned by Mr Tam Chi Sang. Mr Tam Chi Sang is also a director of Beaute and the sole director of Potentasia. Mr Tam Chi Sang is therefore taken to be interested in 204,000,000 Shares that Beaute is interested; and
- (ii) Mr Tam Chi Sang is taken to be interested in an aggregate of 30,600,000 Shares upon the exercise of the subscription rights attached to the 61,200,000 Warrants held by Realchamp and Beaute respectively.
- (3) Mr Chan Kwok Tung, Donny is taken to be interested in an aggregate of 16,200,000 Shares as follows:
- (i) Mr Chan Kwok Tung, Donny is taken to be interested in an aggregate of 14,400,000 Shares held by Champion Sight Investments Inc ("**Champion Sight**"). Champion Sight is wholly-owned by Mr Chan Kwok Tung, Donny and he is the sole director of Champion Sight; and
- (ii) Mr Chan Kwok Tung, Donny is taken to be interested in an aggregate of 1,800,000 Shares upon the exercise of the subscription rights attached to the 3,600,000 Warrants held by Champion Sight.

Long position in the shares in the associated corporation

Name of Director	Name of associated corporation	Class of shares	Nature of interest	Total number of shares held	Approximate percentage of interests
Mr Lam Wai Ming	Beaute	Ordinary share	Corporate interest	2 (Note)	100%
Mr Tam Chi Sang	Beaute	Ordinary share	Corporate interest	2 (Note)	100%

Note: Beaute is owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima is wholly-owned by Mr Lam Wai Ming and Potentasia is wholly-owned by Mr Tam Chi Sang. Both Mr Lam Wai Ming and Mr Tam Chi Sang are the directors of Beaute. Mr Lam Wai Ming and Mr Tam Chi Sang are therefore taken to be interested in the shares in Beaute through their respective interests in Apex Prima and Potentasia.

Save as disclosed above, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Report of The Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY

As at 31 March 2006, the interests and short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company, as recorded in the register required to be kept under section 336 of the SFO or as notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Long position in Securities of the Company

Name of substantial shareholder	Number of Shares held (other than under equity derivatives)	Number of Shares held under equity derivatives <i>(Note 1)</i>	Total number of Shares held	Percentage of issued Shares
Beaute	204,000,000	25,500,000	229,500,000	57.38%
Apex Prima <i>(Note 2)</i>	204,000,000	25,500,000	229,500,000	57.38%
Potentasia <i>(Note 3)</i>	204,000,000	25,500,000	229,500,000	57.38%
Achieve Best	40,800,000	5,100,000	45,900,000	11.48%
Realchamp	40,800,000	5,100,000	45,900,000	11.48%

Notes:

1. The Warrants were issued by way of bonus issue to all shareholders whose names appeared on the register of members of the Company as at completion of the share offer and the capitalization issue in the proportion of one Warrant for every four Shares, in unit(s) of HK\$0.30 of the subscription rights to the warrant holders. The subscription price of the Warrants is HK\$0.60 per Share with a subscription period from 16 June 2005 to 13 June 2008. Up to the date of this report, there was no conversion of the Warrants.
2. Apex Prima is taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which is owned as to 50% by Mr Lam Wai Ming and 50% by Mr Tam Chi Sang.
3. Potentasia is taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which is owned as to 50% by Mr Lam Wai Ming and 50% by Mr Tam Chi Sang.

SHARE OPTION SCHEME

On 27 May 2005, the Company adopted a share option scheme (the "Share Option Scheme") and a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") respectively.

The following is the summary of the principal terms of the Share Option Scheme and the Pre-IPO Share Option Scheme:

I) Share Option Scheme

(a) Purpose

The purpose of the Share Option Scheme is to enable the Group and any entity in which any member of the Group as enlarged by the acquisition of the Kario Company Limited and its subsidiary ("Kario Group"), or, in respect of any period before the completion of such acquisition, deemed to have been so enlarged as if the Company were the holding company of the Kario Group (the "Enlarged Group") holds an equity interest (the "Invested Entities") to recruit and retain high calibre Eligible Person(s) (as defined in paragraph (b) below) and attract human resources that are valuable to the Enlarged Group or Invested Entities, to recognize the significant contributions of the Eligible Persons to the growth of the Enlarged Group or Invested Entities by rewarding them with opportunities to obtain ownership interest in the Company and to further motivate and give incentives to these Eligible Persons to continue to contribute to the long term success and prosperity of the Enlarged Group or Invested Entities.

Report of The Directors

SHARE OPTION SCHEME (Continued)

I) Share Option Scheme (Continued)

(b) *Who may join*

Any person belonging to any of the following classes who, in the sole discretion of the Board, have contributed or will contribute to the growth and development of the Enlarged Group or any Invested Entity are defined as Eligible Persons:

- (i) any employee (whether full time or part time), senior executive or officer, manager, director (including executive, non-executive and independent non-executive director) or consultant of any members of the Enlarged Group or any Invested Entity;
- (ii) any consultant, adviser or agent engaged by any member of the Enlarged Group or any Invested Entity, who, under the terms of relevant engagement with the Enlarged Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company;
- (iii) any vendor, supplier of goods or services or customer of or to any member of the Enlarged Group or Invested Entity who, under the terms of relevant agreement with the Enlarged Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company; and
- (iv) any discretionary trust whose discretionary objects include the persons as described in (i), (ii) and/or (iii) above;

The Board may invite any Eligible Person as the Board may in its absolute discretion select, having regard to each person's qualifications, skills, background, experience, service records and/or contribution or potential value to the relevant member(s) of the Enlarged Group or Invested Entity, to take up a right granted to subscribe for Shares pursuant to the Share Option Scheme and "Options" shall be construed accordingly (the "**Options**") to subscribe for Shares at a price calculated in accordance with paragraph (c) below.

(c) *Subscription price and acceptance period*

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and notified to an Eligible Person but shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the offer of a grant of Option pursuant to the Share Option Scheme (the "**Offer**") is made to an Eligible Person pursuant to the Share Option Scheme (the "**Offer Date**");
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the Offer Date; and
- (iii) the nominal value of a Share.

The Eligible Person must accept any such Offer notified to him or her within fourteen (14) days from the Offer Date, failing which it shall be deemed to have been rejected. Upon acceptance of the Offer, any Eligible Person who accepts an Offer in accordance with the terms of the Share Option Scheme (the "**Grantee**") shall pay HK\$1.00 to the Company as consideration for the grant.

Report of The Directors

SHARE OPTION SCHEME (Continued)

I) Share Option Scheme (Continued)

(d) Maximum number of Shares subject to the Share Option Scheme

- (i) Subject to the provisions of paragraph (d)(ii) below,
 - (1) the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed ten (10)% ("**Scheme Mandate Limit**") of the nominal amount of all issued Shares as at 16 June 2005 (the "**Listing Date**") (such ten (10)% shall represent 40,000,000 Shares) unless the Company obtains a fresh approval from the holders of the Shares (the "**Shareholders**") pursuant to paragraphs (d)(i)(2) and/or (3) below;
 - (2) the Company may seek approval of the Shareholders in general meeting to refresh the Scheme Mandate Limit from time to time such that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed ten (10)% of the Shares in issue as at the date of such Shareholders' approval. The Company must send a circular containing the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules to the Shareholders; and
 - (3) the Company may seek separate Shareholders' approval in general meeting to grant Options over and above the Scheme Mandate Limit provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specified by the Company before such approval is sought and for whom specific approval is then obtained. The Company must issue a circular containing the information required under Note 1 to Rule 17.03(3) of the Listing Rules to the Shareholders.
- (ii) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed thirty (30)% of the Shares in issue from time to time required under Note 2 of Rule 17.03(3) of the Listing Rules. Further, no option may be granted under the Share Option Scheme and any other option scheme(s) of the Company if such limit is exceeded.

(e) Maximum entitlement of each Grantee

- (i) Unless the approval of Shareholders contemplated under paragraph (e)(ii) below is obtained, the total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Person under the Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed one (1)% of the Shares in issue.

Report of The Directors

SHARE OPTION SCHEME (Continued)

I) Share Option Scheme (Continued)

(e) *Maximum entitlement of each Grantee (Continued)*

- (ii) Where the Board proposes to grant an option to an Eligible Person under the Share Option Scheme and/or any other share option scheme(s) of the Company and such further grant would result in such Eligible Person becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares (a) already issued under all the options previously granted to him or her which have been exercised; (b) issuable under all the options previously granted to him or her which are for the time being subsisting and unexercised; and (c) which were subject to options previously granted to him or her but for the time being having been cancelled in the past 12-month period up to and including the date of such further grant, exceeding one (1)% of the Shares in issue for the time being, such further grant shall be separately approved by the Shareholders in general meeting (with such Eligible Person and his or her associates abstaining from voting). The relevant requirements under the Note to Rule 17.03(4) of the Listing Rules must be complied with.

(f) *Term of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten (10) years commencing from 27 May 2005 (being the date of approval of the Share Option Scheme by the Shareholders), after which no further Options shall be granted but the Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue and the provisions of the Share Option Scheme shall in all other respects remain in full force and effect in respect thereof.

As at the date of this report, no options have been granted by the Company under the Share Option Scheme.

II) Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to obtain ownership interest in the Company and recognize the significant contribution of, and further motivate and to give incentives to, the key executives, senior management and full-time employees of the Enlarged Group (including Executive Directors) who, in the sole discretion of the Board, has contributed or will contribute to the Enlarged Group. The principal terms of the Pre-IPO Share Option Scheme, approved and adopted by a written resolution of all the Shareholders dated 27 May 2005 (which is still subject to certain conditions similar to those referred to under the Share Option Scheme), are basically the same as the terms of the Share Option Scheme, except that:

- (a) the exercise price for each Share is one third of HK\$0.55 (the “**Offer Price**”);
- (b) the option period (the “**Option Period**”) of all options granted does not exceed 3 years from the Listing Date;
- (c) the options cannot be exercised within six months from the date on which the Shares and Warrants first commence trading;
- (d) Subject to paragraph (c) above and the requirements under the Listing Rules, the option may be exercised at any time during the Option Period provided that the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on that date shall not be less than 1.25 times of the Offer Price;
- (e) the definition of the “Eligible Persons” means key executives, senior management and full-time employees of the Enlarged Group (including executive directors of the Enlarged Group);

Report of The Directors

SHARE OPTION SCHEME (Continued)

II) Pre-IPO Share Option Scheme (Continued)

- (f) the total number of Shares subject to the Pre-IPO Share Option Scheme is 4,000,000 Shares; and
- (g) save for the options which have been conditionally granted under the Pre-IPO Share Option Scheme in respect of 4,000,000 Shares, no further options will be offered or granted pursuant to the Pre-IPO Share Option Scheme, as the right to do so has been terminated on 27 May 2005.

As at the date of this report, options to subscribe for 4,000,000 Shares in aggregate (representing 1% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the capitalisation issue at an exercise price equivalent to one third of the Offer Price) have been conditionally granted by the Company under the Pre-IPO Share Option Scheme.

Particulars of outstanding options under Pre-IPO Share Option Scheme at the beginning and at the end of the financial year ended 31 March 2006 and the details of share options granted, exercised, cancelled and lapsed during the year were as follows:

Name of grantee	Grant date	Exercise period of share option	Exercise price of share option HK\$	No. of share options held at 1 April 2005	No. of share options granted during the year	No. of share options exercised during the year	No. of share options cancelled/lapsed during the year	No. of share options held at 31 March 2006
Senior management								
Mr Kwong Pak Chuen, Patrick Senior Engineering Manager	28 May 2005	16 December 2005 to 13 June 2008*	One third of 0.55	-	1,200,000	-	-	1,200,000
Mr Law Tak Wai Operation Manager	28 May 2005	16 December 2005 to 13 June 2008*	One third of 0.55	-	1,200,000	-	-	1,200,000
Mr Wong Siu Man Senior Materials Manager	28 May 2005	16 December 2005 to 13 June 2008*	One third of 0.55	-	600,000	-	-	600,000
Mr Lam Wai Hung Administration Manager	28 May 2005	16 December 2005 to 13 June 2008*	One third of 0.55	-	1,000,000	-	-	1,000,000
Total:				-	4,000,000	-	-	4,000,000

* The closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of exercise of the option shall not be less than 1.25 times of HK\$0.55.

Save as disclosed above, no options have been granted by the Company under the Pre-IPO Share Option Scheme.

Report of The Directors

SHARE OPTION SCHEME (Continued)

Fair Value of the Pre-IPO Share Options

For the determination of the fair value of the Pre-IPO Share Options granted, reference was made to the Binomial Option Pricing Model taking into account a number of factors such as the exercise price and the life of the options, the market price and volatility of the underlying shares, and the risk-free interest rate for the life of the options. In addition, it requires input of assumptions that have significant sensitivity effects, including the approximation of the stock price at the grant date of the Pre-IPO Share Options, expected stock price volatility, expected dividend, etc. Any changes in the subjectivity input assumptions may materially affect the estimation of the fair value of an option. The fair value of the Pre-IPO Share Options granted by using Binomial Option Pricing Model was approximately HK\$0.2501 per share option.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year were there any rights to acquire benefits by means of the acquisition of securities of the Company granted to any Director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, as at the latest practicable date prior to the printing of this report, the Company has maintained sufficient public float of the Company's issued shares as required under the Listing Rules.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its Independent Non-Executive Directors an annual confirmation of his independence. The Company considers that all of its Independent Non-Executive Directors are independent.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 71 and 72.

RELATED PARTY TRANSACTIONS

Details of the information in relation to the related party transactions of the Group during the year is set out on Note 35 to the Financial Statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to its existing Shareholders.

Report of The Directors

TAXATION OF HOLDERS OF SHARES AND WARRANTS

(a) Hong Kong

Dealings in Shares and Warrants registered on the Company's Hong Kong branch register of members and register of Warrants respectively will be subject to Hong Kong stamp duty. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares or Warrants being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares. Profits from dealings in the Shares and/or Warrants arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Shares and Warrants are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) (as amended) and accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares and/or Warrants.

(b) Cayman Islands

Under present Cayman Islands law, transfer or other dispositions of Shares and Warrants are exempted from Cayman Islands stamp duty.

(c) Professional tax advice recommended

Intending holders of Shares and Warrants are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares and Warrants or exercising rights attached to them.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 60% of the total sales for the year and sales to the largest customer included therein amounted to approximately 19%.

Purchases from the Group's five largest suppliers accounted for approximately 30% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 7%.

None of the Directors or any of their associates or any shareholders, which to the knowledge of the Directors, own more than 5% of the issued share capital of the Company had any beneficial interest in the Group's five largest customers and suppliers.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 March 2006, except for the deviation from the CG Code Provision A.2.1. The Company has published its Corporate Governance Report, details of which are set out on pages 22 to 27 of this annual report.

AUDITORS

The first Financial Statements of the Company for the year ended 31 March 2005 was audited by BDO McCabe Lo & Company, the first auditors of the Company.

The accompanying Financial Statements for the year ended 31 March 2006 have been audited by BDO McCabe Lo Limited.



Report of The Directors

AUDITORS (Continued)

On 1 August 2005, the practice of BDO McCabe Lo & Company was reorganised as BDO McCabe Lo Limited (collectively "BDO"). Accordingly, BDO will retire at the forthcoming annual general meeting of the Company and a resolution will also be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO McCabe Lo Limited as auditors of the Company.

Save as disclosed above, there have been no other changes of the auditors of the Company in the past three years.

CHARITABLE DONATIONS

During the year, the Group made charitable donations amounting to HK\$3,000.

OTHER DISCLOSURE

Save as disclosed, the Group either has had no material changes from the information disclosed in the latest annual report of the Company or are considered not significant to the Group's operations, and thus no additional disclosure has been made in this report.

On behalf of the Board

KENFORD GROUP HOLDINGS LIMITED

Lam Wai Ming

Chairman

Hong Kong, 14 July 2006

Directors' and Senior Management's Profile

DIRECTORS

A. Executive Directors

Mr Lam Wai Ming, aged 47, joined the Group in January 1989. Mr Lam is currently the Executive Director and the Chairman of the Company. He is responsible for supervision and management of the sales and marketing affairs of the Group.

Mr Lam has over 20 years of experience in trading and manufacturing of electrical appliances. He is the brother of Mr Lam Wai Hung, the Administration Manager of the Group.

Mr Tam Chi Sang, aged 46, joined the Group in July 1991. Mr Tam is currently the Executive Director and Managing Director of the Company. He is responsible for supervision and management of the production, quality control, engineering and design affairs of the Group.

Mr Tam has over 20 years of experience in the trading and manufacturing of electrical appliances. He is also the marketing and promotion director of Hong Kong Electrical Appliances Manufacturers Association.

Mr Chan Kwok Tung, Donny, *FCIS, FCS, ACIB, AHKIB*, aged 43, joined the Group in October 2001. Mr Chan is currently the Executive Director and the Company Secretary of the Company. He is responsible for the supervision and management of the daily operation, company secretarial affairs and the financial affairs of the Group, with particular focus on corporate governance (including regulatory compliance) and financial risk control (including credit assessment).

Prior to joining the Company, Mr Chan has extensive experience in the banking and finance industry. Mr Chan was awarded a Master of Professional Accounting from The Hong Kong Polytechnic University in November 2000 and a MBA from The Henley Management College, UK in 1993. Mr Chan is an associate member of both the Chartered Institute of Bankers (UK) and the Hong Kong Institute of Bankers. Mr Chan is also a fellow member of both The Hong Kong Institute of Chartered Secretaries ("HKICS") and The Institute of Chartered Secretaries and Administrators, United Kingdom. He was a council member of the HKICS from August 2000 to July 2002.

B. Independent Non-Executive Directors

Mr Chiu Fan Wa, *FCCA, FCPA (Practising), ACA, ACIS, ACS*, aged 41, has been the Independent Non-Executive Director of the Company since March 2005. He is also currently serving as the chairman of the Audit Committee, the chairman of the Nomination Committee and the member of the Remuneration Committee, the board committees of the Company. Mr Chiu is a founder and the managing director of Chiu, Choy & Chung C.P.A. Limited, a local audit firm and a partner of F. S. Li & Co, a local audit firm. He graduated from City University of Hong Kong and obtained a Bachelor of Arts (Honours) degree with major in accountancy in 1992 and was awarded a Master of Professional Accounting from The Hong Kong Polytechnic University in 2002. He is a Certified Public Accountant (Practising) in Hong Kong, a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, a member of The Society of Chinese Accountants & Auditors, the Associate Member of the Institute of the Chartered Accountants in England and Wales, an associate of The Hong Kong Institute of Chartered Secretaries and an associate of The Institute of Chartered Secretaries and Administrators, United Kingdom.

Mr Li Chi Chung, aged 37, has been the Independent Non-Executive Director of the Company since March 2005. He is also currently serving as the members of the Audit Committee, the Remuneration Committee and the Nomination Committee, the board committees of the Company. Mr Li is currently a solicitor practising in Hong Kong. He obtained a bachelor degree in laws from The University of Sheffield in England in 1990. Mr Li was admitted as a solicitor of the Supreme Court of Hong Kong in 1993 and his practice has been focused on commercial related matters. He is also an independent non-executive director of PINE Technology Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and an independent non-executive director of Eagle Nice (International) Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' and Senior Management's Profile

DIRECTORS (Continued)

B. Independent Non-Executive Directors (Continued)

Mr Li Tat Wah, aged 36, has been the Independent Non-Executive Director of the Company since March 2005. He is also currently serving as the chairman of the Remuneration Committee, the members of the Audit Committee and the Nomination Committee, the board committees of the Company. Mr Li has extensive experience in information technology. He holds a master degree of business administration from University of Surrey (U.K.). He is currently the project manager of a group company of a multinational communication equipment company listed on the New York Stock Exchange of the United States.

SENIOR MANAGEMENT

Mr Kwong Pak Chuen, Patrick, aged 45, joined the Group in June 1999 and is the Senior Engineering Manager of the Group. Mr Kwong has over 20 years' experience in project engineering, product development and research and development for small household electrical appliances, such as hair care products, and kitchen ware products and other hand held drilling machines and hand toys. He graduated from The University of Warwick with a master degree of Science in Engineering Business Management.

Mr Yeung Kin Wing, aged 36, joined the Group in June 1998 and was promoted as the Operation Manager of the Group in May 2006. Mr Yeung has over 16 years' experience in quality management in manufacturing industry. He has obtained a bachelor degree of Business Administration from Lincoln University and a National Diploma in Engineering from Business and Technical Education Council.

Mr Wong Siu Man, aged 44, joined the Group in September 2002 and is the Senior Materials Manager of the Group. Mr Wong has over 15 years' experience in purchasing and materials management. He has obtained a bachelor degree of Science in Engineering from The University of Hong Kong.

Mr Lam Wai Hung, aged 36, joined the Group in February 1993 and is the Administration Manager of the Group. Mr Lam has over 10 years' experience in factory administration and in handling regulatory compliance in the PRC. Mr Lam is the brother of Mr Lam Wai Ming, the Executive Director and the Chairman of the Company.

Ms Chan Tsz Ping, CPA, FCCA, aged 31, joined the Group in July 2004. She is the Chief Accountant of the Group and the Qualified Accountant of the Company. Ms Chan graduated from The Hong Kong University of Science and Technology with a bachelor degree of business administration in accounting and has over 8 years' relevant experience in accounting and auditing in international accounting firms and other auditing and consulting firms. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

In the opinion of the board of directors (the “**Board**”) of Kenford Group Holdings Limited (the “**Company**”), the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the “**CG Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) throughout the financial year ended 31 March 2006, except for the deviation from the CG Code Provision A.2.1 explained in the following relevant section.

The Company is committed to the establishment of three committees of the Board, namely Remuneration Committee, Nomination Committee and Audit Committee with the terms of reference adopted by the Board set out separately. The Board believes that pursuit of a high standard of corporate governance practices and procedures could provide a sound framework and solid foundation to achieve a high standard of accountability, transparency, independence, responsibility, fairness to the shareholders and stakeholders. The Company is dedicated to maintain a credible framework of corporate governance and continue to review and improve our corporate governance and internal control system from time to time.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted procedures governing directors’ securities transactions in compliance with the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all the directors of the Company (the “**Directors**”) have confirmed that they fully complied with the required standards as set out in the Model Code throughout the financial year ended 31 March 2006.

BOARD OF DIRECTORS

Board functions

The Board oversees the strategic development, determines objectives, strategy, policy and business plan of the Company. It monitors, controls the operation and financial performance, reviews the corporate governance standard of the Company and sets appropriate policies pursuant to the Company objectives.

Board composition

The Board of Directors of the Company comprises six Directors, of which three are Executive Directors, namely, Mr Lam Wai Ming (Chairman), Mr Tam Chi Sang (Managing Director), Mr Chan Kwok Tung, Donny; and three are Independent Non-Executive Directors, namely, Mr Chiu Fan Wa, Mr Li Chi Chung and Mr Li Tat Wah. The biographical details of the Directors of the Company and the relationships among them as at the date of this report are set out in the “Directors and Senior Management Profile” section on pages 20 to 21 of this annual report. Save as disclosed in this annual report, none of our Directors has any business, financial, or family interests with each other and the Company.

To ensure objectivity and impartiality in the management of the Company, the Board comprises equal number of Executive Directors and Independent Non-Executive Directors. The Executive Directors have diversified skills, expertise, backgrounds and qualifications including solid experience on production, sales and marketing in the electrical appliances industry, extensive experience in banking and finance industry, sound professional qualifications background focusing on corporate governance (including regulatory compliance) and financial risk control (including credit assessment), to develop, direct, and monitor the strategies and policies on the issues in relation to production, operation, promotion, sales and marketing of the Company and its subsidiaries (collectively, the “**Group**”) and to ensure the going concern of the Group. The Independent Non-Executive Directors have their professional qualifications and expertise in accounting, auditing, legal and information technology which bring independent judgment to the Group’s strategies and policies through their valuable advice. The Board believes that the balance between Executive Directors and Independent Non-Executive Directors is reasonable and adequate to provide checks and balance and also safeguards the interests of shareholders of the Company and the Group. The Board will review its composition regularly to ensure that it has the appropriate balance of expertise, skills and experience to continue to effectively oversee the business of the Group.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Board composition (Continued)

During the financial year ended 31 March 2006, the Board complies at all times with the requirements of the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors. One of the Independent Non-Executive Directors is a professional accountant, which is in compliance with the requirement of the Listing Rules. Each of our Independent Non-Executive Directors has presented an annual confirmation of independence to the Company in accordance with the requirement of the Listing Rules. The Company considered that all of the Independent Non-Executive Directors to be independent.

The Company has arranged a cover of "Directors' and Officers' Liabilities Insurance" for Directors, officers and senior management of the Group. The insurance coverage is reviewed annually.

Board delegation

The Board delegates to the committees or senior management of the Company on issues which require discussion, expertise knowledge and experience to make the decision.

During the financial year ended 31 March 2006, the Board granted and delegated its powers to establish a committee comprising any three or more Directors (the "**Committee of Directors**") with full power to do all such things and to approve, execute and authorize the issue, publication or dispatch of all such documents on behalf of the Company as the Committee of Directors may consider necessary or desirable in connection with the application to the Listing Committee of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the listing of the shares and warrants issued by the Company on the Stock Exchange and any matters directly or indirectly relating thereto, including any announcement required to be issued by the Company in connection therewith.

Besides, three committees of the Board, namely Remuneration Committee, Nomination Committee and Audit Committee have been established during the financial year ended 31 March 2006 with the terms of reference adopted by the Board set out separately. The details of Remuneration Committee, Nomination Committee and Audit Committee are explained in the following relevant sections.

Board, Board committees and general meetings

The total number of the meetings and the individual attendance of each Director in person at each of the meetings during the financial year ended 31 March 2006 were as follows:

Name of Directors	Number of Meetings Attended		
	Board meetings (Note 1)	Audit Committee meetings	annual general meeting
Executive Directors			
Mr Lam Wai Ming	20/23	N/A	1/1
Mr Tam Chi Sang	22/23	N/A	1/1
Mr Chan Kwok Tung, Donny	23/23	N/A	1/1
Independent Non-Executive Directors			
Mr Chiu Fan Wa	7/23	2/2	1/1
Mr Li Chi Chung	2/23	0/2	0/1
Mr Li Tat Wah	7/23	2/2	1/1

Notes:

1. There were twenty-three (23) Board meetings held during the financial year ended 31 March 2006 which included two (2) regular meetings with formal notice and agenda and four (4) meetings of the Committee of Directors.
2. There were no meeting of Remuneration Committee and Nomination Committee held during the financial year ended 31 March 2006.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Board, Board committees and general meetings (Continued)

The regular Board meetings at approximately half yearly intervals were held during the financial year ended 31 March 2006. The notices in advance for each of the regular board meeting had been given to all the Directors an opportunity to attend in person during the year. On ad hoc basis, the Executive Directors met together by given the reasonable notices or by agreement of the Executive Directors to waive the requirement of the notice of the meetings to discuss the matters as required by business needs. In respect of regular Board meetings, and so far as practicable, an agenda and accompanying board papers were sent in full to all Directors in a timely manner before the intended dates of Board meetings. The company secretary of the Company attended all regular board meetings to advise on corporate governance and statutory compliance when necessary. In addition, the Company has maintained a procedure for Directors to seek independent professional advice in appropriate circumstances. Minutes of Board meetings and meetings of Board committees are kept by a duly appointed secretary of the meetings and such minutes would be opened for inspection at any reasonable time on reasonable notice by any Director. Minutes of Board meetings and meetings of Board committees had recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by Directors or the representatives of the relevant parties or dissenting views expressed. Draft and final versions of minutes of Board meetings had been sent to all Directors and the representatives of the relevant parties involved in the meetings through electronic means for their comments and records respectively, in both cases within a reasonable time after the meetings held.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr Lam Wai Ming holds the position of Chairman currently and is deemed to be the Chief Executive Officer. 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 and development plans. The Board believes that the balance of power and authority is adequately ensured.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the Independent Non-Executive Directors has entered into a letter of appointment with the Company commencing on the 16 June 2005 for a term of one year and shall continue until terminated by not less than one month's prior notice in writing served by either party on the other.

REMUNERATION COMMITTEE

Remuneration Committee functions

The remuneration committee of the Company (the "Remuneration Committee") was established to formulate remuneration policy for the Board's approval. It has adopted the terms of reference which are in line with the Code Provisions set out in the CG Code under Appendix 14 of the Listing Rules.

The principal functions of the Remuneration Committee include reviewing and determining specific remuneration packages for each Executive Director and senior management by reference to corporate goals and objectives as well as share option scheme of the Company.

Corporate Governance Report

REMUNERATION COMMITTEE (Continued)

Remuneration Committee composition

The Remuneration Committee comprises three Independent Non-Executive Directors namely, Mr Chiu Fan Wa, Mr Li Chi Chung and Mr Li Tat Wah. Mr Li Tat Wah was appointed as the chairman of the Remuneration Committee.

Remuneration Committee meeting

As the Remuneration Committee was newly established in July 2005, there was no meeting held during the financial year ended 31 March 2006.

The Directors are remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. Details of emoluments of the Directors of the Group for the year are disclosed in Note 13 to the financial statements.

NOMINATION COMMITTEE

Nomination Committee functions

The nomination committee of the Company (the "Nomination Committee") was established to formulate nomination policy for consideration by the Board and to implement the nomination policy laid down by the Board. It has adopted the terms of reference which are in line with the Code Provisions set out in the CG Code under Appendix 14 of the Listing Rules.

As the result of the establishment and the adoption of the written terms of reference of the Nomination Committee, there would be a formal and transparent procedure for the appointment of new Directors to the Board. There would be plans in place for orderly succession for appointments to the Board. All Directors would be subject to re-election at regular intervals.

Nomination Committee composition

The Nomination Committee comprises three Independent Non-Executive Directors namely, Mr Chiu Fan Wa, Mr Li Chi Chung and Mr Li Tat Wah. Mr Chiu Fan Wa was appointed as the chairman of the Nomination Committee.

Nomination Committee meeting

As the Nomination Committee was newly established in July 2005, there was no meeting held during the financial year ended 31 March 2006.

AUDITORS' REMUNERATION

During the financial year ended 31 March 2006, the Company engaged BDO McCabe Lo Limited (formerly known as BDO McCabe Lo & Company) as the external auditors of the Company to perform audit and audit related services. The audit and audit related services fees for auditing the annual financial statements and reviewing the interim financial statements are set out in Note 7 to the audited financial statements for the year ended 31 March 2006.

AUDIT COMMITTEE

Audit Committee functions

The audit committee of the Company (the "Audit Committee") was established on 29 April 2005 with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are, inter alia, to review and supervise the financial reporting process and internal control system of the Group, to review the financial statements focusing particularly on (i) any changes in accounting policies and practices of the Group; (ii) the compliance with accounting standards and (iii) the compliance with the legal requirements, as well as to review the Company's annual reports and interim reports.

Corporate Governance Report

AUDIT COMMITTEE (Continued)

Audit Committee composition

The Audit Committee comprises three Independent Non-Executive Directors namely Mr Chiu Fan Wa, Mr Li Chi Chung and Mr Li Tat Wah. Mr Chiu Fan Wa was appointed as the chairman of the Audit Committee who is a qualified accountant with appropriate professional qualification and experience in financial matters. None of the Audit Committee members are members of the former or existing auditors of the Company.

Audit Committee meetings

The Audit Committee had met two times to review the effectiveness of the internal control system, the final results for the year ended 31 March 2005, and the interim results for the six months ended 30 September 2005 of the Group prior to recommending them to the Board for approval during the year ended 31 March 2006. The details of the number of the Audit Committee meetings held during the financial year ended 31 March 2006 and the relevant record of individual attendance of the members of the Audit Committee, on a named basis, are shown in the table under the heading "Board, Board committees and general meetings" on page 23 of this Corporate Governance Report.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of our audited financial statements of the Group for the financial year ended 31 March 2006 in conjunction with the Group's auditors, BDO McCabe Lo Limited. In addition, the preliminary results announcement has been agreed with the Group's auditors, BDO McCabe Lo Limited.

The Board agreed with the Audit Committee's view on the selection and re-appointment of the external auditors of the Company for the financial year ended 31 March 2005. As at the date of this Corporate Governance Report, the Board agrees the proposal of re-appointment of the external auditors of the Company, BDO McCabe Lo Limited, for the financial year ended 31 March 2006.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT

During the financial year ended 31 March 2006, no significant change in the Company's articles and association had been amended since the Company's shares listed on the Stock Exchange. The articles and association of the Company will be amended and modified to reflect the changes brought about by the new Listing Rules and the restrictions or obligations under the laws in any territory applicable to the Company. A special resolution in relation to the proposal of the amendment of the Company's articles and association will be put forth as special business at the forthcoming annual general meeting of the Company. A full text of the special resolution will be contained in the notice of annual general meeting of the Company to be published in the newspapers and the circular of the Company to draw the attention of the shareholders of the Company.

The Company uses a number of formal communications channels to communicate with shareholders and investors for the performance of the Company. These include: (i) publishing interim and annual reports and/or dispatching circular, notices, and other announcements; (ii) conducting the annual general meeting or extraordinary general meeting (if any) which provides a forum for shareholders of the Company to raise comments and exchange views with the Board; and (iii) updating the website with the corporate information, the achievements and the new development of the Group.

At the annual general meeting of the Company held at Plaza V, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on 16 September 2005 at 10:30 a.m., the following ordinary resolutions had been passed: (i) the receipt and adoption of the audited consolidated accounts and the reports of the Directors and auditors for the year ended 31 March 2005; (ii) the re-election of Directors and the authorization to the board of Directors to fix the Directors' remuneration; (iii) the re-appointment of the auditors of the Company and the authorization of the board of Directors to fix the auditors' remuneration; and (iv) the grant of the proposal of the general mandates to the Directors to exercise the powers of the Company to issue shares and to repurchase shares and warrants respectively.

Corporate Governance Report

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT (Continued)

The details of the number of the annual general meeting of the Company held during the financial year ended 31 March 2006 and the relevant record of individual attendance of the Directors, on a named basis, are shown in the table under the heading "Board, Board committees and general meetings" on page 23 of this Corporate Governance Report.

The forthcoming annual general meeting of the Company will be held on 8 September 2006. The notice of the annual general meeting of the Company will be published in the newspapers and be dispatched to the shareholders of the Company in due course.

INTERNAL CONTROL AND RISK MANAGEMENT

The Company believes that improvement in its internal control system will enhance its operational management efficiency and effectiveness and promote its continued development. The Directors conduct the annual review of the effectiveness of the system of internal control of the Group which cover all material controls, including financial, operational and compliance control and risk management functions.

The Group's internal control for financial risks includes ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use as well as for publication, ensuring compliance with relevant legislation and regulations, and implementing credit risk management. The Directors are responsible for overseeing the preparation of accounts for the financial year to ensure such accounts give a true and fair view of the state of affairs of the Group. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. As at the date of this Corporate Governance Report, the Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern required to disclose.

The Group's internal control for operational risks includes: (i) maintaining and ensuring compliance with ISO9001 under the standards under the family of ISO 9000, a series of international standards on quality management and quality assurance developed by the International Organisation for Standardization, for the quality control of the Group's production; (ii) maintaining and improving a sound network system to avoid computer viruses or other system malfunctions; and (iii) maintaining a team of staff for products development. Besides, the Group has been maintaining product liability insurance for most types of the Group's products against possible claims relating to personal injury or property damage arising from the use of the products manufactured by the Group.

The Group's internal control for compliance risks includes maintaining a team of professionals with accounting, financial management, financial risk control (including credit assessment), and corporate governance expertise (including regulatory compliance) to monitor the ongoing activities of the Group and to avoid the breach of financial regulations, Listing Rules, Companies Ordinance requirements and other regulations and laws. The Group would seek for advice from external adviser on accounting, financial and legal issues if necessary.

LOOKING FORWARD

The Group will keep on reviewing and improving its corporate governance standards from time to time and the Board endeavors to take the necessary actions to ensure the compliance with the provisions of the CG Code introduced by the Stock Exchange.

Auditors' Report



BDO McCabe Lo Limited
Certified Public Accountants
德豪嘉信會計師事務所有限公司

25th Floor Wing On Centre
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TO THE SHAREHOLDERS OF KENFORD GROUP HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 70 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 statements and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and the Company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO McCabe Lo Limited
Certified Public Accountants

Chow Tak Sing, Peter
Practising Certificate number P04659

Hong Kong, 14 July 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Turnover	4	403,551	464,910
Cost of sales		(356,874)	(370,729)
Gross profit		46,677	94,181
Other revenue	5	8,588	12,215
Distribution costs		(8,309)	(8,020)
Administrative expenses		(36,480)	(31,704)
Profit from operations	7	10,476	66,672
Finance costs	9	(5,728)	(3,912)
Profit before tax		4,748	62,760
Tax expense	10	(601)	(5,357)
Net profit attributable to equity holders of the Company		4,147	57,403
Dividends:	11		
Interim dividend paid		4,000	-
Special dividend paid		-	40,000
Final dividend proposed		1,200	-
		5,200	40,000
Earnings per share (cents)			
Basic	12	1.094	19.13
Diluted	12	1.090	N/A

Consolidated Balance Sheet

As at 31 March 2006

	Notes	2006 HK\$'000	2005 HK\$'000 (Restated)
Non-current assets			
Property, plant and equipment	14	91,461	78,295
Interests in leasehold land held for own use under operating leases	15	3,247	3,288
Goodwill	16	1,403	1,403
Total non-current assets		96,111	82,986
Current assets			
Inventories	18	54,207	60,881
Trade and bills receivables	19	69,363	46,880
Deposits, prepayments and other receivables		8,479	12,617
Tax recoverable		1,866	–
Pledged bank deposits		–	6,051
Cash and cash equivalents	20(a)	63,334	77,176
Total current assets		197,249	203,605
Current liabilities			
Trade and bills payables	21	46,291	55,298
Accruals and other payables		15,461	15,620
Dividend payable	20(b)	–	32,489
Borrowings – due within one year	22	69,204	90,004
Bank advances for discounted bills	19	18,534	–
Obligations under finance leases – due within one year	23	457	1,014
Tax payable		48	2,506
Total current liabilities		149,995	196,931
Net current assets		47,254	6,674
Total assets less current liabilities		143,365	89,660
Non-current liabilities			
Borrowings – due after one year	22	11,607	7,622
Obligations under finance leases – due after one year	23	155	599
Deferred tax liabilities	24	6,100	2,823
Net assets		125,503	78,616
Capital and reserves			
Share capital	25	400	100
Share premium		36,317	–
Merger reserve		942	942
Share-based compensation reserve		1,000	–
Properties revaluation reserve		9,111	–
Exchange fluctuation reserve		12	–
Retained profits		76,521	77,574
Proposed final dividend		1,200	–
Equity attributable to equity holders of the Company		125,503	78,616

On behalf of the Board

Lam Wai Ming
Director

Tam Chi Sang
Director

Balance Sheet

As at 31 March 2006

	<i>Notes</i>	2006 HK\$'000	2005 HK\$'000
Non-current assets			
Investments in subsidiaries	17	58	58
Current assets			
Deposits, prepayments and other receivables		35	6,106
Amounts due from subsidiaries	17	8,976	-
Cash and cash equivalents		28,805	-
Total current assets		37,816	6,106
Current liabilities			
Accruals and other payables		164	-
Amount due to a subsidiary	17	-	6,064
Total current liabilities		164	6,064
Net current assets		37,652	42
Net assets		37,710	100
Capital and reserves			
Share capital	25	400	100
Reserves	27	37,310	-
Total equity		37,710	100

On behalf of the Board

Lam Wai Ming
Director

Tam Chi Sang
Director

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	Note	2006 HK\$'000	2005 HK\$'000 (Restated)
Cash flows from operating activities			
Profit before tax		4,748	62,760
Adjustments for:			
Depreciation of property, plant and equipment		12,111	12,111
Amortisation of interests in leasehold land held for own use under operating leases		71	44
Interest income		(1,205)	(117)
Interest expenses		5,728	3,912
Share-based payment expenses		1,000	-
Operating profit before working capital changes		22,453	78,710
Decrease/(increase) in inventories		6,674	(8,759)
Increase in trade and bills receivables		(22,483)	(15,032)
Decrease/(increase) in deposits, prepayments and other receivables		4,138	(7,107)
Increase in balances with a related company		-	(1,614)
(Decrease)/increase in trade and bills payables		(9,007)	13,326
(Decrease)/increase in accruals and other payables		(159)	1,767
Cash generated from operations		1,616	61,291
Interest expenses		(5,728)	(3,912)
Income tax paid		(4,628)	(3,694)
Net cash (used in)/generated from operating activities		(8,740)	53,685
Cash flows from investing activities			
Purchase of property, plant and equipment		(13,149)	(11,702)
Decrease/(increase) in pledged bank deposits		6,051	(8)
Net cash inflow in respect of purchase of subsidiaries		-	4,618
Interest received		1,205	117
Net cash used in investing activities		(5,893)	(6,975)
Cash flows from financing activities			
Increase in amounts due from directors		-	(24,940)
Proceed from issue of shares		55,000	27
Share issue expenses		(18,383)	-
(Decrease)/increase in trust receipt loans		(13,665)	24,813
(Repayment of)/proceeds from bank loans		(3,150)	3,130
Increase in bank advances for discounted bills		18,534	-
Repayment of finance lease liabilities		(1,001)	(2,584)
Dividend paid		(36,489)	-
Net cash from financing activities		846	446
Net (decrease)/increase in cash and cash equivalents		(13,787)	47,156
Cash and cash equivalents at beginning of year		77,176	30,020
Effect of foreign exchange rate change		(55)	-
Cash and cash equivalents at end of year	20(a)	63,334	77,176

Consolidated Statement of Changes in Equity

For the year ended 31 March 2006

Attributable to equity holders of the Company

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Share-based compensation reserve HK\$'000	Properties revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Proposed final dividend HK\$'000	Retained profits attributable to shareholders of the Company HK\$'000	Total HK\$'000
At 1 April 2005	100	-	942	-	-	-	-	77,574	78,616
Exchange realignments	-	-	-	-	-	12	-	-	12
Profit for the year	-	-	-	-	-	-	-	4,147	4,147
Total recognised profit	100	-	942	-	-	12	-	81,721	82,775
Placing and public offer of share at premium	100	54,900	-	-	-	-	-	-	55,000
Issue of share by capitalisation of share premium account	200	(200)	-	-	-	-	-	-	-
Share issue expenses	-	(18,383)	-	-	-	-	-	-	(18,383)
Recognition of equity settled share-based payment	-	-	-	1,000	-	-	-	-	1,000
Revaluation of properties	-	-	-	-	12,091	-	-	-	12,091
Tax effect on revaluation of properties	-	-	-	-	(2,980)	-	-	-	(2,980)
Interim dividend paid	-	-	-	-	-	-	-	(4,000)	(4,000)
Proposed final dividend	-	-	-	-	-	-	1,200	(1,200)	-
At 31 March 2006	400	36,317	942	1,000	9,111	12	1,200	76,521	125,503

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Share-based compensation reserve HK\$'000	Properties revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Proposed final dividend HK\$'000	Retained profits attributable to shareholders of the Company HK\$'000	Total HK\$'000
At 1 April 2004	58	-	942	-	-	-	-	60,171	61,171
Profit for the year	-	-	-	-	-	-	-	57,403	57,403
Total recognised profit	58	-	942	-	-	-	-	117,574	118,574
Issue of share capital	42	-	-	-	-	-	-	-	42
Special dividend paid	-	-	-	-	-	-	-	(40,000)	(40,000)
At 31 March 2005	100	-	942	-	-	-	-	77,574	78,616

Notes to the Financial Statements

For the year ended 31 March 2006

1. GENERAL INFORMATION

Kenford Group Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 10 November 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, British West Indies. The principal place of business in Hong Kong is at Rooms 1106-8, Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 16 June 2005.

The Company is an investment holding company. The principal activities of its subsidiaries are design, manufacture and sale of electrical hair care products, electrical health care products and other small household electrical appliances.

The financial statements have been presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements also comply with the applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange and by the Hong Kong Companies Ordinance.

(b) Basis of preparation

The financial statements have been prepared under the historical cost basis except for certain leasehold land and buildings in Hong Kong and buildings in the PRC and financial instruments, which are measured at revaluated amounts or fair values.

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. Pursuant to the adoption of new HKFRSs, certain of the Group’s accounting policies were changed. The application of the new HKFRSs has also resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet, consolidated cash flow statement and the consolidated statement of changes in equity. The changes in presentation have been applied retrospectively.

The applicable HKFRSs are set out below and the 2005 financial statements have been restated in accordance with the relevant requirements, where applicable.

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

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowings Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separated Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKAS-INT 15	Operating Leases – Incentives

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 37 and HKAS-INT 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKASs 8, 16 and 21 affect certain disclosures of the financial statements.
- HKASs 1, 2, 7, 10, 12, 14, 18, 19, 23, 27, 33, 37 and HKAS INT-15 had no material effect on Group's accounting policies.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

HKAS 17 – Leases

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. 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 "Interests in leasehold land held for own use under operating leases", which are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy is adopted retrospectively and reflected by way of prior period adjustment and restatement of comparative figures.

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 property, plant and equipment.

HKAS 32 and HKAS 39 – Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

HKAS 32 and HKAS 39 – Financial Instruments (Continued)

Classification and measurement of financial assets and financial liabilities

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

This change did not have significant impact on the financial statements for current and prior years. Comparative figures for 2005 have not been restated.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method. This change did not have significant impact on the financial statements for current and prior years. Comparative figures for 2005 have not been restated.

Derecognition

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset’s cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has applied the relevant transitional provisions and applied the revised accounting policy prospectively for transfers of financial assets on or after 1 April 2005.

In 2005, the Group’s discounted bills with recourse of approximately HK\$18,534,000, which were previously treated as contingent liabilities have been accounted for as collateralised bank advances as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

HKFRS 2 – Share-based payment

In the current year, the Group has applied HKFRS 2 “Share-based payment” which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (“equity-settled transactions”), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (“cash-settled transactions”). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options of the Company determined at the date of grant of the share options over the vesting period. The Group has applied HKFRS 2 to share options granted on or after 1 January 2005.

The effect of the changes in the accounting policy has resulted in the decrease of the net profit for the current year by approximately HK\$1,000,000. Comparative figures had not been restated as the Company did not grant any option before 1 January 2005.

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Summary of the effect of the changes in accounting policies

(i) The adoption of HKAS 17 resulted in:

	31 March 2006 HK\$'000	31 March 2005 HK\$'000	1 April 2004 HK\$'000
Decrease in property, plant and equipment	(3,247)	(3,288)	(1,790)
Increase in interest in leasehold land held for own use under operating leases	3,247	3,288	1,790
Increase/(decrease) in net assets	-	-	-

For the year ended 31 March

	2006 HK\$'000	2005 HK\$'000
Decrease in cost of sales - depreciation expense	(71)	(44)
Increase in cost of sales - amortisation expense	71	44
Increase/(decrease) in profit for the year	-	-

(ii) The adoption of HKFRS 2 resulted in:

	2006 HK\$'000	2005 HK\$'000
As at 31 March		
Increase in share-based compensation reserve	1,000	-
For the year ended 31 March		
Increase in administrative expenses – staff costs	1,000	-
Decrease in basic earnings per share (cents)	0.2639	-
Decrease in diluted earnings per share (cents)	0.2628	-

(d) Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective dates of disposal, as appropriate.

The Company's interests in subsidiaries are stated at cost less impairment loss, if any. All significant inter-company transactions and balances among group companies are eliminated on consolidation.

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Subsidiaries

A subsidiary is an entity in which the Company is able to exercise its control on it. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

(f) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

(g) Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on 31 March. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (ie the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (ie the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the income statement, if any, except to the extent they reverse gains previously recognised in reserve.

(h) Foreign currencies

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which its operations (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognised immediately in the income statement, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation.

On consolidation, the results of overseas operations are translated into Hong Kong dollar at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rates ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "exchange fluctuation reserve"). Exchange differences recognised in the income statement of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to the foreign exchange reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Foreign currencies (Continued)

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

(i) Financial Instruments

(i) *Financial assets*

The Group classifies its financial asset according to the purpose for which the asset was acquired.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), but also incorporate other types of contractual monetary asset. At each balance sheet date subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

(ii) *Financial liabilities*

The Group classifies its financial liabilities according to the purpose for which the liability was incurred.

- Trade payables and other short-term monetary liabilities are other financial liabilities, which are recognised at amortised cost.
- Bank borrowings are initially recognised at the amount advanced net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

(iii) *Hedge accounting*

Hedge accounting is applied to financial assets and financial liabilities only where all of the following criteria are met:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.
- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.
- The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (ie it is expected to be highly effective).
- The effectiveness of the hedge can be reliably measured.
- The hedge is assessed on a quarterly basis and remains highly effective.

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Financial Instruments (Continued)

(iii) Hedge accounting (Continued)

Cash flow hedges: where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction and the hedge is effective, the gain or loss on the derivative financial instrument in relation to the hedged risk is recognised directly in equity.

Fair value hedge: A fair value hedge seeks to offset risks of changes in the fair value of an existing asset or liability that will give rise to a gain or loss being recognised in the profit and loss account or reserves. The hedging instrument is measured at fair value, with fair value of hedging instrument attributable to the risk being hedged. This adjustment is recognised in the profit and loss account to affect the effect of the gain or loss on the hedging instrument.

(iv) Derecognition

The Group derecognise a financial asset where the contractual rights to the future cash flows in relation to the investment expire or where the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

(j) Employee benefits

(i) Defined contribution retirement plan

Obligations for contribution to defined contribution retirement plan are recognised as an expense in the income statement as incurred.

(ii) Employment Ordinance long term service payment

Certain of the Group's Hong Kong based 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 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 Employment Ordinance.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(iv) Employee entitlements

Employee entitlements to annual leave and long service payment are recognised when they accrue to the employees. A provision is made for the estimated liability for annual leave and long service payment as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Share-based payment

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the income statement is charged with the fair value of goods and services received.

(l) Leases

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

The land and buildings elements of property leases are considered separately for the purposes of lease classification. The allocated land costs are recognised as interests in leasehold land held for own use under operating leases which represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(m) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design, testing and production technique of new or improved products are recognised as an asset and amortised on a straight-line basis over the period of expected future benefits where the technical feasibility and intention of completing the product under development has been demonstrated and resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits.

(n) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Property, plant and equipment (Continued)

Certain properties held for use in the production or for administrative purposes are stated in the balance sheet at their revalued amounts being the fair value on the basis of their existing use at the date of valuation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such property is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of property is charged as an expense to the extent it exceeds the balance, if any, held in the property revaluation reserve relating to the previous revaluation of that asset.

Plant and equipment are depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight-line basis. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The estimated useful lives are as follows:

Leasehold land and buildings in Hong Kong	42 years
Buildings in the PRC	20-45 years
Leasehold improvements	The shorter of the lease terms or 5 years
Plant and machinery	10 years
Fixtures, furniture and equipment	5 years
Motor vehicles	5 years
Moulds	5 years

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

The gain or loss on disposal of property, plant and equipment other than leasehold building is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(o) Borrowing costs

All borrowing costs are expensed in the income statement in the period in which they are incurred. However, borrowing costs attributable directly to the acquisition, construction or production of assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised.

(p) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. First-in, first-out basis is used to determine the cost of ordinarily interchangeable items.

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Revenue recognition

Revenue from goods sold is recognised when title of goods sold has passed to the purchaser, which is at the time of delivery.

Reimbursement of mould costs is recognised when all conditions anticipated by both parties to reimburse the development costs of moulds have been met and duly confirmed by customers.

Commission income is recognised when the services related to introduction of and liaison with customers are rendered.

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

(r) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax arises from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes and is accounted for using the balance sheet liability method. Except for recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised with the basis on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes are recognised in the income statement except when it relates to items directly recognised to equity in which case the taxes are also directly recognised in equity.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Dividends

Interim dividends are recognised directly as a liability when they are proposed and declared by the directors.

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet. Final dividends are recognised as a liability when they are approved by the shareholders.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before inter-company balances and inter-company transactions are eliminated as part of the consolidation process, except to the extent that such inter-company balances and transactions are between group companies within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not yet applied the following new HKFRSs that have been issued but are not yet effective.

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial gains and losses, Group plans and disclosures
HKAS 21 Amendment	Net investment in a foreign operation
HKAS 39 Amendment	Cash flow hedge accounting of forecast intra-group transactions
HKAS 39 Amendment	The fair value option
HKAS 39 & HKFRS 4 Amendments	Financial guarantee contracts
HKFRS 7	Financial instrument: Disclosures
HKFRS – Interpretation 4	Determining whether an arrangement contains a lease
HKFRS – Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – Interpretation 6	Liabilities arising from participating in a specific market–waste electrical and electronic equipment
HK(IFRIC) – Interpretation 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies
HK(IFRIC) – Interpretation 8	Scope of HKFRS 2
HK(IFRIC) – Interpretation 9	Reassessment of embedded derivatives

Notes to the Financial Statements

For the year ended 31 March 2006

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE (Continued)

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far the Group believes that the adoption of HKFRS - Interpretation 5, HK (IFRIC) - Interpretations 6 and 7 are not applicable to any of the Group's operations and that the adoption of the rest of the above amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

4. TURNOVER

The Group is principally engaged in the design, manufacture and sale of electrical hair care products, electrical health care products and other small household electrical appliances. Turnover represents the net invoiced value of goods sold which is the most significant category of revenue during the year.

5. OTHER REVENUE

	2006 HK\$'000	2005 HK\$'000
Reimbursement of mould costs	5,484	7,734
Commission income	–	2,861
Interest income	1,205	117
Sample sales	234	101
Sundry income	1,665	1,402
	8,588	12,215

6. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segments

The Group has been operating in a single business segment, that is the design, manufacture and sale of electrical hair care products, electrical health care products and other small household electrical appliances.

Notes to the Financial Statements

For the year ended 31 March 2006

6. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The Group's revenue is mainly derived from customers located in Europe, North and South America, Asia and Australia while the Group's business activities are conducted predominantly in Hong Kong and the PRC.

The following is an analysis of the Group's sales by geographical location of customers:

	2006 HK\$'000	2005 HK\$'000
Europe	261,751	341,257
North and South America	82,158	35,426
Asia	35,390	30,667
Australia	19,574	48,064
Africa	4,678	9,496
	403,551	464,910

The following is an analysis of the carrying amount of segment assets, analysed by the geographical area in which the assets are located:

	2006 HK\$'000	2005 HK\$'000
Hong Kong	150,358	142,008
PRC (excluding Hong Kong)	141,599	143,180
	291,957	285,188
Goodwill	1,403	1,403
	293,360	286,591

The following is an analysis of capital expenditure, analysed by the geographical area in which the assets are located:

	2006 HK\$'000	2005 HK\$'000
Hong Kong	381	289
PRC (excluding Hong Kong)	12,768	12,293
	13,149	12,582

Notes to the Financial Statements

For the year ended 31 March 2006

7. PROFIT FROM OPERATIONS

Profit from operations is stated after charging/(crediting):

	2006 HK\$'000	2005 HK\$'000 (Restated)
Auditors' remuneration	475	300
Cost of inventories recognised as an expense	356,874	370,729
Depreciation of property, plant and equipment		
– Owned	11,701	10,282
– Held under finance leases	410	1,829
Exchange losses, net	1,344	1,521
Staff costs (<i>note 8</i>)		
– Basic salaries, bonuses, allowances and benefits in kind	58,015	50,569
Less: Amount paid under PRC sub-processing agreements	(37,175)	(32,616)
	20,840	17,953
Research and development costs (<i>note (i)</i>)	4,361	4,532
Amortisation on interests in leasehold land held for own use under operating leases	71	44
Operating lease expenses	268	42
Impairment of trade receivables	199	5
Impairment/(reversal) of obsolete inventories	443	(104)

Note:

- (i) Research and development costs comprised of mainly salaries to engineers who are responsible for the research and development functions. The amounts were also included in staff costs.

8. STAFF COSTS

	2006 HK\$'000	2005 HK\$'000
Staff costs (including directors' emoluments) comprise:		
Salaries and welfare	56,548	50,121
Retirement benefits scheme contributions	467	448
Share-based payment expenses (<i>note 26</i>)	1,000	–
	58,015	50,569

Notes to the Financial Statements

For the year ended 31 March 2006

9. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on:		
Bank borrowings and overdrafts (<i>note (i)</i>)	985	1,051
Trust receipt loans	4,674	2,781
Finance leases	69	80
	5,728	3,912

Note: (i) Bank borrowings and overdrafts are wholly repayable within five years.

10. TAX EXPENSE

The amount of tax expense in the consolidated income statement represents:

	2006 HK\$'000	2005 HK\$'000
Current tax – provision for Hong Kong Profit Tax		
– Tax for the year	255	5,268
Current tax – provision for PRC Enterprise Income Tax		
– Tax for the year	49	–
	304	5,268
Deferred tax (<i>Note 24</i>)		
– Current year	338	234
– Over provision in previous years	(41)	(145)
	297	89
	601	5,357

No provision for profit tax in the Cayman Islands or British Virgin Islands has been made as the Group had no income assessable for profit tax in these jurisdictions.

Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year.

Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), Dongguan Kario Electrical Appliance Co., Ltd. ("DG Kario"), a wholly owned subsidiary acquired by the Group on 23 March 2005, being a foreign investment enterprise, is subject to income tax rate of 24%. DG Kario is also exempted from enterprise income tax for two years starting from the first year of profitable operations in 2003 after off-setting prior year tax losses, followed by a 50% reduction in the applicable tax rate for the next three years.

Notes to the Financial Statements

For the year ended 31 March 2006

10. TAX EXPENSE (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Profit before tax	4,748	62,760
Tax calculated at the domestic income tax rate of 17.5%	831	10,983
Effect of different tax rates of a subsidiary operating in other jurisdiction	(100)	–
Tax concessions of a PRC subsidiary	(49)	–
Tax effect of income that is not taxable in determining taxable profit (<i>note (i)</i>)	(921)	(5,543)
Tax effect of expense that is not deductible for tax purpose	881	62
Over provision of deferred tax liability in prior years	(41)	(145)
Income tax expense	601	5,357

Note:

- (i) This amount mainly represents the tax effect of the 50% of assessable profit of a subsidiary, Kenford Industrial Company Limited ("Kenford HK") which were exempted under Departmental Interpretation of Practice Notes 21 issued by the Inland Revenue Department of Hong Kong.

11. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim, paid HK\$0.01 (2005: Nil) per share	4,000	–
Special, paid HK\$Nil (2005: HK\$0.1) per share (<i>note (i)</i>)	–	40,000
Final, proposed HK\$0.003 (2005: Nil) per share (<i>note (ii)</i>)	1,200	–
	5,200	40,000

Notes:

- (i) The amount represented dividend declared by a subsidiary of the Group to its then shareholders before the group reorganisation.
- (ii) The directors recommended a final dividend of HK\$0.003 per share. This proposed dividend is not reflected as a dividend payable at 31 March 2006, but is reflected as an appropriation of retained profits for the year ended 31 March 2006.

Notes to the Financial Statements

For the year ended 31 March 2006

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Year ended 31 March	
	2006 HK\$'000	2005 HK\$'000
Earnings:		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company)	4,147	57,403
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	378,904	300,000
Effect of dilutive potential ordinary shares:		
Share options	1,679	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	380,583	N/A

The diluted earnings per share for the year ended 31 March 2005 have not been calculated as no diluting events existed during the year.

13. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments:

	2006 HK\$'000	2005 HK\$'000
Fees	228	–
Salaries, allowances and other benefits	5,487	3,705
Discretionary bonuses	–	195
Retirement benefits scheme contributions	36	36
	5,751	3,936

Notes to the Financial Statements

For the year ended 31 March 2006

13. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(a) Directors' emoluments: (Continued)

The remuneration of directors for the year ended 31 March 2006 is set out below:

	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Other benefits HK\$'000	Share-based payments HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Executive Directors							
Mr. Lam Wai Ming	-	2,127	-	45	-	12	2,184
Mr. Tam Chi Sang	-	2,127	-	35	-	12	2,174
Mr. Chan Kwok Tung, Donny	-	1,153	-	-	-	12	1,165
Independent Non-executive Directors							
Mr. Chiu Fan Wa	76	-	-	-	-	-	76
Mr. Li Chi Chung	76	-	-	-	-	-	76
Mr. Li Tat Wah	76	-	-	-	-	-	76
	228	5,407	-	80	-	36	5,751

The remuneration of directors for the year ended 31 March 2005 is set out below:

	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Other benefits HK\$'000	Share-based payments HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Executive Directors							
Mr. Lam Wai Ming	-	1,430	-	-	-	12	1,442
Mr. Tam Chi Sang	-	1,430	-	-	-	12	1,442
Mr. Chan Kwok Tung, Donny	-	845	195	-	-	12	1,052
	-	3,705	195	-	-	36	3,936

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

No emolument was paid by the Group to any of other directors for the year ended 31 March 2005 except for the above.

Notes to the Financial Statements

For the year ended 31 March 2006

13. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS (Continued)

(b) Five highest paid individuals:

The five highest paid individuals for the year ended 31 March 2006 included three directors (2005: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two individuals (2005: two) during the year are summarised as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and other benefits	1,681	1,705
Discretionary bonuses	–	381
Retirement benefits scheme contributions	24	24
Share-based compensation	600	–
	2,305	2,110

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK\$Nil – HK\$1,000,000	–	2
HK\$1,000,001 – HK\$1,500,000	2	–

No emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join the Group or upon joining the Group or as compensation for loss of office for the year ended 31 March 2006 (2005: Nil).

Notes to the Financial Statements

For the year ended 31 March 2006

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings in Hong Kong (Note (i), (ii)) HK\$'000	Buildings in the PRC (Note (ii)) HK\$'000	Leasehold improve- ments HK\$'000	Plant and Machinery HK\$'000	Fixtures, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Total HK\$'000
Cost or valuation								
At 1 April 2005 as previously reported	15,938	45,764	4,667	32,275	11,939	2,378	34,974	147,935
Effect of adopting HKAS 17 (note 2(c))	-	(4,963)	-	-	-	-	-	(4,963)
Restated as 1 April 2005	15,938	40,801	4,667	32,275	11,939	2,378	34,974	142,972
Additions	-	-	1,035	763	3,009	-	8,342	13,149
Disposals	-	-	-	(2,425)	(455)	(1,417)	(6,445)	(10,742)
Eliminated against accumulated depreciation on revaluation	(4,403)	(5,355)	-	-	-	-	-	(9,758)
Surplus on revaluation	1,555	10,536	-	-	-	-	-	12,091
Currency realignment	-	18	-	21	5	4	-	48
At 31 March 2006	13,090	46,000	5,702	30,634	14,498	965	36,871	147,760
Comprising:								
At cost	-	-	5,702	30,634	14,498	965	36,871	88,670
At valuation	13,090	46,000	-	-	-	-	-	59,090
	13,090	46,000	5,702	30,634	14,498	965	36,871	147,760
Accumulated depreciation and impairment								
At 1 April 2005 as previously reported	4,122	6,094	3,963	16,591	6,108	2,245	27,229	66,352
Effect of adopting HKAS 17 (note 2(c))	-	(1,675)	-	-	-	-	-	(1,675)
Restated as 1 April 2005	4,122	4,419	3,963	16,591	6,108	2,245	27,229	64,677
Charge for the year	281	936	521	3,097	2,433	64	4,779	12,111
Written back on disposals	-	-	-	(2,425)	(455)	(1,417)	(6,445)	(10,742)
Eliminated against cost on revaluation	(4,403)	(5,355)	-	-	-	-	-	(9,758)
Currency realignment	-	-	-	7	3	1	-	11
At 31 March 2006	-	-	4,484	17,270	8,089	893	25,563	56,299

Notes to the Financial Statements

For the year ended 31 March 2006

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

	Leasehold land and buildings in Hong Kong (Note (i), (ii)) HK\$'000	Buildings in the PRC (Note (ii)) HK\$'000	Leasehold improve- ments HK\$'000	Plant and Machinery HK\$'000	Fixtures, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Moulds HK\$'000	Total HK\$'000
Cost								
At 1 April 2004 as previously reported	15,938	43,284	4,180	34,711	6,897	2,320	33,181	140,511
Effect of adopting HKAS 17 (note 2(c))	-	(3,421)	-	-	-	-	-	(3,421)
Restated as 1 April 2004	15,938	39,863	4,180	34,711	6,897	2,320	33,181	137,090
Additions	-	-	478	1,637	5,369	-	5,098	12,582
Acquisition of subsidiary	-	938	9	905	177	58	-	2,087
Disposals	-	-	-	(4,978)	(504)	-	(3,305)	(8,787)
At 31 March 2005 as restated	15,938	40,801	4,667	32,275	11,939	2,378	34,974	142,972
Accumulated depreciation and impairment								
At 1 April 2004 as previously reported	3,770	5,164	3,032	18,432	4,497	2,064	26,025	62,984
Effect of adopting HKAS 17 (note 2(c))	-	(1,631)	-	-	-	-	-	(1,631)
Restated as 1 April 2004	3,770	3,533	3,032	18,432	4,497	2,064	26,025	61,353
Charge for the year	352	886	931	3,137	2,115	181	4,509	12,111
Written back on disposals	-	-	-	(4,978)	(504)	-	(3,305)	(8,787)
At 31 March 2005 as restated	4,122	4,419	3,963	16,591	6,108	2,245	27,229	64,677
Net book value								
At 31 March 2006	13,090	46,000	1,218	13,364	6,409	72	11,308	91,461
At 31 March 2005	11,816	36,382	704	15,684	5,831	133	7,745	78,295

Notes:

- (i) The Group's interests in leasehold land and buildings are situated in Hong Kong and held under medium term leases. The mortgages on the leasehold land and buildings as part of collateral for banking facilities granted to the Group (note 30) were released during the year.
- (ii) The Group's leasehold land and buildings in Hong Kong and the buildings in PRC were previously recorded at cost and were revaluated on 31 March 2006, on the basis of their market value, by Norton Appraisal Limited, an independent firm of property valuer. Had the revaluated properties been measured on a historical cost basis, their net book values would have been HK\$11,535,000 and HK\$35,464,000 (2005: HK\$11,816,000 and HK\$36,382,000 as restated) respectively.

Notes to the Financial Statements

For the year ended 31 March 2006

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes: (Continued)

(iii) The net book values of property, plant and equipment held by the Group under finance leases are summarised as follows:

	Plant and machinery HK\$'000	Fixtures, furniture and equipment HK\$'000	Total HK\$'000
At 31 March 2006	369	706	1,075
At 31 March 2005	5,783	1,135	6,918

15. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

Group

	HK\$'000
Cost	
At 1 April 2004 – as previously reported	–
Effect of adopting HKAS 17 (note 2(c))	3,421
At 1 April 2004 – as restated	3,421
Acquisition of subsidiary	1,542
At 31 March 2005 – as restated	4,963
Currency realignment	31
At 31 March 2006	4,994
Amortisation	
At 1 April 2004 – as previously reported	–
Effect of adopting HKAS 17 (note 2(c))	1,631
At 1 April 2004 – as restated	1,631
Charge for the year	44
At 31 March 2005 – as restated	1,675
Charge for the year	71
Currency realignment	1
At 31 March 2006	1,747
Net Book Value	
At 31 March 2006	3,247
At 31 March 2005	3,288

Notes to the Financial Statements

For the year ended 31 March 2006

15. INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES (Continued)

The Group's interests in leasehold land held for own use under operating leases comprises:

	31 March 2006 HK\$'000	31 March 2005 HK\$'000 (Restated)
Leasehold land situated in the PRC: Medium-term leases	3,247	3,288

16. GOODWILL

Group

	HK\$'000
Cost	
At 1 April 2005 and 31 March 2006	1,403
Impairments	
Balance at 1 April 2005 and 31 March 2006	-
Cost	
At 1 April 2004	-
Arising on acquisition of subsidiaries	1,403
At 31 March 2005	1,403
Impairments	
Balance at 1 April 2004 and 31 March 2005	-
Carrying amount	
At 31 March 2006	1,403
At 31 March 2005	1,403

The amount represents goodwill arising on the acquisition of interests in Kario Company Limited ("Kario HK") and its subsidiary (the "Kario Group"), which was completed on 23 March 2005.

As at 31 March 2005, before impairment testing, goodwill has been allocated to one single cash generating unit, Kario Group. The recoverable amount has been determined based on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 13%. Cash flow for the first financial periods are based on expected sales orders estimated by the management. Cash flow for the third to fifth financial periods are extrapolated using the steady 10% growth rate. Budgeted gross margin is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

Notes to the Financial Statements

For the year ended 31 March 2006

17. INVESTMENTS IN SUBSIDIARIES

Company

	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	58	58

The balances with subsidiaries are unsecured, interest free and repayable on demand.

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

Name of company	Form of business structure	Place of incorporation/ registration/ and operation	Issued and paid-up share/ registered capital	Percentage of ownership interest attributable to the Company		Principal activities
				Directly	Indirectly	
Asia Pilot Development Limited	Corporation	The British Virgin Island ("BVI")	USD1	100%	-	Investment holding
Kenford HK	Corporation	Hong Kong	HK\$1,000,000	-	100%	Design, manufacture and sale of electrical hair care products, electrical health care products and other small household electrical appliances
Sky Ocean Group Limited	Corporation	BVI	USD1	-	100%	Investment holding
Kario HK	Corporation	Hong Kong	HK\$10,000	-	100%	Investment holding and trading
DG Kario	Corporation	The People's Republic of China	RMB4,240,000	-	100%	Design, manufacture and sale of electrical hair care products and other electrical appliances

None of the subsidiaries had any debt securities subsisting at the end of year or at any time during the year.

18. INVENTORIES

Group

	2006 HK\$'000	2005 HK\$'000
Raw materials	39,109	42,702
Work in progress	2,805	4,204
Finished goods	12,293	13,975
	54,207	60,881

Notes to the Financial Statements

For the year ended 31 March 2006

19. TRADE AND BILLS RECEIVABLES

Group

In general, the credit terms granted by the Group ranged from 14 to 90 days.

	2006 HK\$'000	2005 HK\$'000
Trade receivables	42,640	38,386
Bills receivables	26,723	8,494
	69,363	46,880

The aging analysis of trade receivables is as follows:

	2006 HK\$'000	2005 HK\$'000
Aged:		
Within 60 days	26,458	27,456
61 – 120 days	8,264	7,045
121 – 365 days	5,252	2,947
More than 365 days	2,666	938
	42,640	38,386

The maturity of bills receivables is generally between one to three months.

The Group transferred certain bills of exchange amounting to HK\$18,534,000 to banks with recourse in exchange for cash during the year ended. The transactions have been accounted for as collateralised bank advances.

Included in trade and bills receivables are the following significant amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006 '000	2005 '000
Renminbi	RMB3,879	RMB5,447
United States Dollars	USD8,465	USD5,325

The directors consider that the carrying amount of trade and bills receivables approximates their fair value.

Notes to the Financial Statements

For the year ended 31 March 2006

20. SUPPLEMENTAL INFORMATION TO CONSOLIDATED CASH FLOW STATEMENT

Group

(a) Analysis of the balances of cash and cash equivalents is set out below:

	2006 HK\$'000	2005 HK\$'000
Cash and bank balances	63,334	77,176

Included in the cash and cash equivalents are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006 '000	2005 '000
United States Dollars	USD1,392	USD1,287
Renminbi	RMB1,266	RMB3,199
Japanese Yen	JPY19,674	JPY177,543
Korean Won	KRW371	KRW371

(b) Major non-cash transactions

During the year ended 31 March 2005, the Group acquired property, plant and equipment for approximately HK\$880,000, which was settled through finance lease agreements.

During the year ended 31 March 2005, a special dividend of HK\$4,000 per share, totalling HK\$40,000,000 was declared by Kenford HK, which has caused the total dividend payable to increase to approximately HK\$57,429,000 of which approximately HK\$24,940,000 was offset against balance due from directors, which resulted from non-trade advances to directors during the year. The balance of approximately HK\$32,489,000 was outstanding as at 31 March 2005 and fully paid as at 31 March 2006.

21. TRADE AND BILLS PAYABLES

Group

In general, the credit terms granted by suppliers ranged from 30 to 120 days. The aging analysis of trade and bills payables is as follows:

	2006 HK\$'000	2005 HK\$'000
Aged:		
Within 60 days	36,888	39,021
61 – 120 days	7,054	10,260
121 – 365 days	1,862	5,738
More than 365 days	487	279
	46,291	55,298

Notes to the Financial Statements

For the year ended 31 March 2006

21. TRADE AND BILLS PAYABLES (Continued)

Included in trade and bills payables are the following significant amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006 '000	2005 '000
Renminbi	RMB4,281	RMB2,550
United States Dollars	USD198	USD189

The directors consider that the carrying amount of trade and bills payables approximates their fair value.

22. BORROWINGS

Group

	2006 HK\$'000	2005 HK\$'000
Secured borrowings comprise:		
Trust receipt loans	57,964	71,629
Bank loans, secured	22,847	25,997
	80,811	97,626

The maturity profile of the above borrowings is as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	69,204	90,004
In the second year	4,030	4,062
In the third to fifth years, inclusive	7,577	3,560
	80,811	97,626
Amount due within one year included in current liabilities	(69,204)	(90,004)
	11,607	7,622

Included in borrowings are the following significant amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006 '000	2005 '000
United States Dollars	USD699	USD1,390
Japanese Yen	-	JPY505,170

Notes to the Financial Statements

For the year ended 31 March 2006

22. BORROWINGS (Continued)

The bank borrowings carry interest at rates ranging from 1.5% to 2% per annum (2005: 1.875% to 2.375%) over the one, two, three or six month(s) HIBOR (Hong Kong Inter Bank Offered Rate). During the year, the properties of Kenford HK, the personal guarantees provided by directors and a pledge of bank deposits were released and replaced by a corporate guarantee by the Company.

23. OBLIGATIONS UNDER FINANCE LEASES

Group

The Group's obligations under finance leases were payable as follows:

	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 repayable:				
Within one year	479	1,045	457	1,014
In the second to third years, inclusive	158	633	155	599
	637	1,678	612	1,613
Less: Future finance charges	(25)	(65)		
Present value of lease obligations	612	1,613		
Less: Amounts due within one year shown under current liabilities			(457)	(1,014)
Amounts due after one year			155	599

The Group leases machinery and equipment for its business operation. The leases are classified as finance leases and have remaining lease terms of 2 years.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets (note 14(iii)). During the year, the personal guarantees provided by directors were released and replaced by a corporate guarantee by the Company.

Notes to the Financial Statements

For the year ended 31 March 2006

24. DEFERRED TAX

Group

	At 1 April 2005 HK\$'000	Charge to income for the year HK\$'000	Charge to properties revaluation reserve HK\$'000	At 31 March 2006 HK\$'000
Accelerated tax depreciation	2,823	314	2,980	6,117
Tax losses	–	(17)	–	(17)
	2,823	297	2,980	6,100

	At 1 April 2004 HK\$'000	Charge to income for the year HK\$'000	At 31 March 2005 HK\$'000
Accelerated tax depreciation	2,734	89	2,823

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006 HK\$'000	2005 HK\$'000
Deferred tax liabilities	6,117	2,823
Deferred tax assets	(17)	–
	6,100	2,823

At the balance sheet date, the Group has unused tax losses of HK\$100,237 (2005: HK\$Nil) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$17,542 (2005: HK\$Nil) of such losses. The unused tax losses carry no expiry date.

25. SHARE CAPITAL

Company

Authorised share capital	Note	Number of shares ordinary share of HK\$0.001 each	Nominal value HK\$
Upon incorporation and at 31 March 2005	(i)	500,000,000	500,000
Increase in authorised share capital	(vi)	500,000,000	500,000
At 31 March 2006		1,000,000,000	1,000,000

Notes to the Financial Statements

For the year ended 31 March 2006

25. SHARE CAPITAL (Continued)

Company

Issued share capital	Note	Number of shares ordinary share of HK\$0.001 each	Nominal value HK\$
Allotted and issued nil-paid upon incorporation	<i>(ii), (iii)</i>	1	–
Allotted and issued nil-paid on 19 November 2004	<i>(ii), (iii)</i>	1	–
Issue of shares for shares exchange	<i>(iii)</i>	58,399,998	58,400
Issue of shares for acquisition of subsidiaries	<i>(iv)</i>	14,400,000	14,400
Issue of new shares on 23 March 2005	<i>(v)</i>	27,200,000	27,200
		<hr/>	
At 31 March 2005		100,000,000	100,000
Allotted and issued nil-paid on 27 May 2005	<i>(vii)</i>	200,000,000	–
New issue of shares	<i>(viii)</i>	100,000,000	100,000
Capitalisation of share premium account	<i>(vii)</i>	–	200,000
		<hr/>	
At 31 March 2006		400,000,000	400,000

Notes:

- (i) The Company was incorporated in the Cayman Islands on 10 November 2004 with an authorised share capital of HK\$500,000 divided into 500,000,000 shares of HK\$0.001 each.
- (ii) Upon incorporation, one new share of HK\$0.001 was allotted and issued nil-paid. On 19 November 2004, one new share of HK\$0.001 was allotted and issued nil-paid.
- (iii) On 23 March 2005, the Company issued an aggregate of 58,399,998 shares, credited as fully paid up. In addition, the Company credited as fully paid at par the 2 nil-paid shares.
- (iv) On 23 March 2005, the Company acquired certain subsidiaries in consideration of cash payments and issue of an aggregate of 14,400,000 shares upon completion of the acquisition on 23 March 2005.
- (v) On 23 March 2005, an aggregate of 27,200,000 shares of HK\$0.001 each were issued at par for cash.
- (vi) On 29 April 2005, written resolutions of all the Shareholders were passed pursuant to which the authorised share capital of the Company was increased from HK\$500,000 to HK\$1,000,000 by the creation of an additional 500,000,000 shares.
- (vii) Pursuant to a resolution of all the Shareholders passed on 27 May 2005, 200,000,000 shares of the Company were allotted and issued, credited as fully paid at par value of HK\$0.001 each to the then existing shareholders whose names appear on the register of members of the Company at the close of business on 29 April 2005 in proportion to their respective shareholding by the capitalisation of HK\$200,000 from the share premium account. Such allotment and capitalisation were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on the Stock Exchange.
- (viii) On the Listing Date 16 June 2005, 100,000,000 shares (with Warrants) of the Company were issued to the Public at a premium of HK\$0.549 for cash totalling HK\$54,900,000. The excess of the issued price over the par value of the shares, net of share issue expenses, was credited to the share premium account of the Company.

Notes to the Financial Statements

For the year ended 31 March 2006

25. SHARE CAPITAL (Continued)

Share option scheme

On 27 May 2005, the Company adopted a share option scheme ("Share Option Scheme") and a pre-IPO share option scheme ("Pre-IPO Share Option Scheme").

Under the Share Option Scheme and the Pre-IPO Share Option Scheme, the directors may, at their discretion, grant to any eligible person as defined under the respective scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the directors pursuant to the relevant listing rules. The total number of shares in respect of which options may be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme of the Company shall not exceed (i) 40,000,000 shares (being 10% of the total number of shares in issue as at the Listing Date), or (ii) 30% of the Company's issued share capital from time to time as approved by the shareholders.

As at date of this report, no options have been granted by the Company under the Share Option Scheme.

On 28 May 2005, options to subscribe for 4,000,000 shares in aggregate at an exercise price equivalent to one third of the offer price (i.e. HK\$0.55), have been conditionally granted by the Company to certain of the key senior management staff under the Pre-IPO Share Option Scheme. The options may be exercised at any time between 16 December 2005 and 13 June 2008 provided that the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on that date shall not be less than 1.25 times of the Offer Price.

Warrants

During the year, a total of 100,000,000 warrants were issued by the way of bonus issue to all shareholders whose name appeared on the register of members of the Company as at completion of the Share Offer and the Capitalisation Issue (as defined in the Prospectus) in proportion of one warrant for every four shares, in unit(s) of HK\$0.30 of the subscription rights to the warrant holders. The subscription price of the warrants is HK\$0.60 per share with a subscription period from 16 June 2005 to 13 June 2008. As at the date of this report, no subscription rights to the warrants is exercised.

26. SHARE-BASED PAYMENT

The Company has a Pre-IPO Share Option Scheme for eligible employees of the Group. Details of the share options outstanding during the current year are as follows:

	Number of share options
Outstanding at the beginning of the year	–
Granted during the year	4,000,000
Outstanding at the end of the year	4,000,000

As mentioned in note 2(b), the Group has, for the first time, applied HKFRS 2 Share-based payment to account for its share options in the current year. In accordance with HKFRS 2, the fair value of share options granted to employees determined at the date of grant is expensed over the vesting period, with a corresponding adjustment to the Group's share-based compensation reserve. In the current year, an amount of share option expense of approximately HK\$1,000,000 has been recognised with a corresponding adjustment recognised in the Group's share-based compensation reserve.

In the current year, share options were granted on 28 May 2005. The fair value of the option determined at the date of grant using the Binomial option pricing model was approximately HK\$0.2501 per share option.

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For the year ended 31 March 2006

26. SHARE-BASED PAYMENT (Continued)

The following assumptions were used to calculate the fair values of share options:

Share price (Note a)	HK\$0.55
Strike price (Note b)	HK\$0.1833
Minimum exercise price (Note c)	HK\$0.6875
Expected life of option (Note d)	3 years
Expected volatility	34.8%
Expected dividend yield	10.57%
Risk free rate	4.96%

For the purposes of calculating the fair value, no adjustment has been made in respect of expected forfeitures, due to lack of historical data.

The Binomial option pricing model requires the input of highly subjective assumptions, including the volatility of share price. The changes in subjective input assumptions can materially affect the fair value estimate.

Notes:

- (a) The share price of the Company's shares at the date of grant of the options was estimated to be HK\$0.55 per share, which is equal to the offer price.
- (b) The strike price is one third of the offer price.
- (c) The minimum exercise price is 1.25 times of the offer price.
- (d) The options life is 3 years from the date of listing.

27. RESERVES

Company

	Share-based Share premium	Share-based compensation reserve	Proposed final dividend	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Upon incorporation and at 31 March 2005	-	-	-	-	-
Placing and public offer of share at premium	54,900	-	-	-	54,900
Issue of share by capitalisation of share premium account	(200)	-	-	-	(200)
Share issue expenses	(18,383)	-	-	-	(18,383)
Recognition of equity-settled share-based payment	-	1,000	-	-	1,000
Profit for the year	-	-	-	3,993	3,993
Interim dividend paid	-	-	-	(4,000)	(4,000)
Proposed final dividend	-	-	1,200	(1,200)	-
At 31 March 2006	36,317	1,000	1,200	(1,207)	37,310

Notes to the Financial Statements

For the year ended 31 March 2006

28. FINANCIAL RISK MANAGEMENT

The Group is exposed through its operations to one or more of the following financial risks:

- Fair value or cash flow interest rate risk
- Foreign currency risk
- Liquidity risk
- Credit risk

Fair value and cash flow interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to change in interest rates is mainly attributable to its short-term deposits and borrowings issued at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

Foreign exchange risk

Foreign exchange risk is the risk of loss due to adverse movement in exchange rate relating to investments and transactions denominated in foreign currencies. The Group's monetary assets and transactions are mainly denominated in RMB, HKD, USD and JPY. During the past few years, there were only little fluctuation of exchange rate between RMB, HKD and USD. The top management from time to time monitors their foreign exchange exposures and considers hedging significant foreign currency exposures should the need arise.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Finance and Account of the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

Fair value

All financial instruments are carried at amounts not materially different from their fair values.

29. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgements that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty 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.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual values. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. For the year ended 31 March 2005, leasehold land and buildings in Hong Kong was depreciated based on their estimated useful life of 40 years. At 1 April 2005, the Directors re-assessed the current status of such assets and considered that their remaining estimated useful lives will be extended to 42 years. This change in accounting estimates has been adopted prospectively and the effect is to decrease the depreciation charge by approximately HK\$71,000 for the year ended 31 March 2006.

Notes to the Financial Statements

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29. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment loss on trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and aging analysis of the trade receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these trade receivables, 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 impairment may be required.

Impairment on inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes provision for obsolete and slow-moving inventory items identified. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions.

Income taxes

As at 31 March 2006, a deferred tax asset of HK\$17,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

Impairment on goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 March 2006 was HK\$1,403,000 (2005: HK\$1,403,000). More details are given in note 16.

30. BANKING FACILITIES

As at 31 March 2006, the Group's banking facilities of approximately HK\$164,000,000 (2005: HK\$194,000,000) were secured by the corporate guarantee by the Company and the leased assets under finance leases. During the year, the fixed deposits placed with banks, personal guarantees given by directors of the Company and the leasehold land and buildings of the Group and related companies were released.

31. RETIREMENT BENEFITS

The Group operates a defined contribution, Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The Group is required to contribute 5% of the monthly salaries (up to a maximum contribution of HK\$1,000) for all Hong Kong based employees to the fund.

The employees of DG Kario, a wholly owned subsidiary acquired by the Group on 23 March 2005 are required to participate in a defined contribution retirement benefit plan organised by the local municipal government in the PRC under which the subsidiary and the employees are required to make monthly contributions to the plan calculated at 23% of the employees' average monthly salary in the preceding year.

The Group's contributions for the year amounted to approximately HK\$467,000 (2005: HK\$448,000).

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employees' final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plans that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

Notes to the Financial Statements

For the year ended 31 March 2006

32. CONTINGENT LIABILITIES

- (i) A High Court action was commenced by WIK Far East Limited ("WIK") against a subsidiary of the Group on 27 April 2004 in respect of alleged infringements of a patent in respect of retractable brushes.

The Directors have confirmed that no settlement had been reached by the parties and no judgements on the quantum of damages had been made against the Group in respect of the legal action. The Group has sought legal advice from its legal counsel on the merits of the claim.

According to the legal counsel, given that the trial has not yet commenced and the parties are still at a premature stage of the litigation, and in the absence of any indication as to how WIK would like to proceed with its claim, it would not be possible to quantify reliably the likely potential damages and cost to be incurred by the Group in the event that the subsidiary of the Group fails in its defence to the claim of patent infringement in the litigation. Assuming that WIK will claim for damages for loss of profits or for accounts of profits, the Directors are of the view that the quantum of the ultimate cost and damages (if any) to be incurred by the Group will not have a material adverse impact on the Group's financial position.

In the event that a liability has arisen from the Litigation, the controlling shareholders have jointly and severally agreed and undertaken to indemnify the Group from and against any of such liability.

- (ii) The Company has executed guarantees amounting to approximately HK\$164,000,000 (2005: Nil) with respect to banking facilities made available to its subsidiaries. As at 31 March 2006, the borrowings outstanding against the facilities amounted to approximately HK\$81,423,000 (2005: Nil).

33. CAPITAL COMMITMENTS

Group

	2006 HK\$'000	2005 HK\$'000
Commitments for acquisition of plant and equipment: Contracted for but not provided in the financial statements	4,826	3,664

34. LEASE ARRANGEMENTS

The Group paid operating lease rentals in respect of staff quarters and production properties as follows:

	2006 HK\$'000	2005 HK\$'000
Minimum lease payments	268	42

The Group has future minimum lease payments in respect of staff quarters and production properties under non-cancellable operating leases, which are due for payments as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	1,073	61
In the second to fifth years, inclusive	3,928	-
	5,001	61

Notes to the Financial Statements

For the year ended 31 March 2006

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out in notes 17, 20 and 26 above, the Group has the following material related party transactions during the year:

(i) Name and relationship of related parties

Name of related parties	Relationship
Kario HK	An indirect wholly-owned subsidiary of the Company
DG Kario	A wholly foreign owned enterprise established by the Group under the laws of the PRC
Bradly International Limited ("Bradly")	A Company beneficially owned by Mr. Lam Wai Ming, the founder of the Group, an executive director and a controlling shareholder

(ii) Significant related party transactions during the year are:

	Note	2006 HK\$'000	2005 HK\$'000
Sales to:			
Kario HK	(a)	–	50
Purchases from:			
Kario HK	(a)	–	7,411
Commissions received from:			
DG Kario	(a)	–	2,861
Reimbursement of electricity and wages expenses:			
DG Kario	(a)	–	1,602
Waive of commission expenses from:			
Bradly		–	158

Note:

- (a) Following the acquisition of equity interests in Kario Group on 23 March 2005, Kario HK and DG Kario became wholly owned subsidiaries of the Group. Accordingly, the transactions with Kario HK and DG Kario as at 31 March 2006 were eliminated at the consolidation level.

In the opinion of the directors, the above related party transactions were conducted in normal commercial terms in the ordinary course of the Group's business.

Notes to the Financial Statements

For the year ended 31 March 2006

35. RELATED PARTY TRANSACTIONS (Continued)

(iii) Key management compensation is as follows:

	2006 HK\$'000	2005 HK\$'000
Key management compensation:		
Basic salaries	8,744	8,416
Contributions to defined contribution plan	96	96
Share-based compensation	1,000	–
	9,840	8,512

Key management personnel are those persons have authority and responsibility for planning, directing and controlling the activities of the Group, including directors and other senior management, totalling 8 individuals.

36. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 March 2006 to be Beaute Inc., a company incorporated in the British Virgin Islands.

37. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 14 July 2006.

Five Years Financial Summary

CONSOLIDATED INCOME STATEMENTS

	Year ended 31st March,				2006 HK\$'000
	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000	
Turnover	290,323	284,882	301,634	464,910	403,551
Cost of sales	(241,621)	(215,111)	(232,979)	(370,729)	356,874
Gross profit	48,702	69,771	68,655	94,181	46,677
Other revenue	8,761	4,820	6,790	12,215	8,588
Impairment loss on land and buildings	-	-	(583)	-	-
Loss on disposals of property, plant and equipment	-	(3,473)	-	-	-
Distribution costs	(9,925)	(9,438)	(8,356)	(8,020)	(8,309)
Administrative expenses	(31,975)	(26,330)	(27,890)	(31,704)	(36,480)
Profit from operations	15,563	35,350	38,616	66,672	10,476
Finance costs	(6,406)	(5,054)	(3,495)	(3,912)	(5,728)
Revaluation deficit	-	(2,020)	-	-	-
Gain on disposal of subsidiaries	-	20,504	-	-	-
Gain on disposal of associates	-	790	22	-	-
Share of profits and losses of associates	36	(802)	(11)	-	-
Profit before tax	9,193	48,768	35,132	62,760	4,748
Tax expense	(742)	364	(4,056)	(5,357)	(601)
Net profit attributable to equity holders of the Company	8,451	49,132	31,076	57,403	4,147
Dividends	-	2,828	80,000	40,000	5,200
Basic earnings per share (cents)	2.82	16.38	10.36	19.13	1.094
Diluted earnings per share (cents)	N/A	N/A	N/A	N/A	1.090

Five Years Financial Summary

CONSOLIDATED BALANCE SHEETS

	2002 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	31st March,		2006 HK\$'000
			2004 HK\$'000 (Restated)	2005 HK\$'000 (Restated)	
Non-current assets					
Property, plant and equipment	105,629	81,161	75,737	78,295	91,461
Interests in leasehold land held for own use under operating leases	2,605	2,489	1,790	3,288	3,247
Interests in associates	78	563	–	–	–
Goodwill	–	–	–	1,403	1,403
Total non-current assets	108,312	84,213	77,527	82,986	96,111
Current assets					
Inventories	36,701	41,755	50,867	60,881	54,207
Trade and bills receivable	11,520	18,628	26,709	46,880	69,363
Deposits, prepayments and other receivables	1,502	2,755	4,225	12,617	8,479
Amounts due from directors	29,253	39,001	–	–	–
Amounts due from related companies	582	17,770	10,338	–	–
Tax recoverable	–	–	–	–	1,866
Pledged bank deposit	2,561	6,084	6,043	6,051	–
Cash and cash equivalents	12,696	23,176	30,020	77,176	63,334
Total current assets	94,815	149,169	128,202	203,605	197,249
Current liabilities					
Trade and bills payable	45,434	34,941	38,001	55,298	46,291
Accruals and other payables	12,301	7,647	12,133	15,620	15,461
Dividends payable	–	2,828	17,429	32,489	–
Amounts due to directors	2,986	–	–	–	–
Amount due to a related company	–	–	943	–	–
Borrowings-due within one year	31,037	51,965	61,843	90,004	69,204
Bank overdrafts, secured	197	1,736	–	–	–
Bank advances for discounted bills	–	–	–	–	18,534
Obligations under finance leases – due within one year	4,106	1,959	2,387	1,014	457
Tax payable	–	2,047	317	2,506	48
Total current liabilities	96,061	103,123	133,053	196,931	149,995
Net current assets/(liabilities)	(1,246)	46,046	(4,851)	6,674	47,254
Total assets less current liabilities	107,066	130,259	72,676	89,660	143,365
Non-current liabilities					
Borrowings-due after one year	35,468	15,895	7,841	7,622	11,607
Obligations under finance leases – due after one year	3,065	2,291	930	599	155
Deferred tax liabilities	4,742	1,978	2,734	2,823	6,100
Net assets	63,791	110,095	61,171	78,616	125,503
Capital and reserves					
Share capital	58	58	58	100	400
Reserves	63,733	110,037	61,113	78,516	125,103
Equity attributable to equity holders of the Company	63,791	110,095	61,171	78,616	125,503