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)

# 2007 Annual Report

# Contents

# 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**

Cricket Square
Hutchins Drive
P. O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

**PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

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

**Telephone:** (852) 2422 8198

**Facsimile:** (852) 2420 3199

**Email:** inform@kenford.com.hk

**WEBSITES**

www.kenford.com.hk
www.equitynet.com.hk/0464

**STOCK CODE:** 464

**WARRANT CODE:** 452

**AUDITORS**

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

**LEGAL ADVISER**

Sit, Fung, Kwong & Shum
18th Floor, Gloucester Tower
The Landmark
11 Pedder Street
Central, Hong Kong

**COMPLIANCE ADVISER**

Partners Capital International Limited
Unit 3906, 39/F., COSCO Tower
183 Queen's Road Central
Hong Kong

**PRINCIPAL SHARE REGISTRAR**

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street, P.O. Box 705
Grand Cayman KY1-1107
Cayman Islands

**BRANCH SHARE REGISTRAR**

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

**PRINCIPAL BANKERS**

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Dah Sing Bank Limited

# Chairman's Statement

On behalf of the board of directors (the "**Board**"), I am pleased to present the audited consolidated financial results of Kenford Group Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") for the year ended 31 March 2007.

## OVERALL RESULTS

In spite of rising raw materials prices and surging labour costs in China, the Group recorded strong growth and made a record high of consolidated turnover for the year under review. During the fiscal year, the Group made a substantial increase of 33% in turnover (nearly HK$537.3 million), compared with about HK$403.6 million of the previous year. Net earnings increased by 1,017% to around HK$46.3 million, whilst the overall gross profit margin improved from 11.6% to 18.8%.

## DIVIDENDS

With a healthy liquidity for future potential development, the Directors have recommended the payment of a final dividend of HK2 cents per share and a special final dividend of HK1 cent per share. Together with the interim dividend of HK1.5 cents per share paid on 18 January 2007, the total dividend will be HK4.5 cents per share for the year ended 31 March 2007.

## REVIEW OF OPERATIONS

The largest product line, Electrical Hair Care Products, recorded sales revenue of HK$513.7 million (2006: HK$379.4 million), representing over 96% of the total turnover during the fiscal year. The improvements were largely attributable to the successful implementation of developing, manufacturing and sales of mid to high-end and innovative electrical hair dryers and styling apparatus strategies and the Group's increased production scale and efficiency, and effective cost control measures.

## GEOGRAPHIES

Europe remained to be our core geographical focus with the Group achieving impressive revenue growth of 31% over the previous fiscal year and recording turnover of HK$343.4 million (2006: HK$261.8 million), accounting for 64% of the total turnover. In line with the expansion of the revenue base, other new developing markets including the United States and Asia received positive market responses and recorded turnover of HK$85.3 million (2006: HK$82.2 million) and HK$66.5 million (2006: HK$35.4 million) respectively, which made respective contributions of 16% and 12% to the Group's consolidated turnover.

## THE OEM/ODM AND BRANDED BUSINESSES

The Group has long-term and solid relationships with parties of world-class electrical brands. During the fiscal year, we signed a supply contract with a renowned electrical appliance brand in the PRC and agreed on a series of strategic business cooperation, which should eventually enjoy substantial growth potential in coming years. In addition, the Group was awarded the "Speed Award 2006" and the "10 Years of Fruitful Partnership and Mutual Success in Household Appliance Business Awards" by two international electrical appliance brands. This can well reflect our strength in researching and developing innovative and trendy array of products and our efficiency in production management. To build up a house-brand business, our OBM business, KARIO, remains one of the core business strategies of the Group.

## INVESTMENTS IN R&D AND PRODUCTION

In order to sustain and advance its competitive advantage, the Group devotes efforts in designing and developing innovative and trendy array of products during the fiscal year, resulting in positive market response and impressive sales results. To improve the production efficiency and ensure strong product development capability, the Group introduced new and improved current production facilities and established a tooling production unit for products during the fiscal year.

## NEAR FUTURE PROSPECTS

The Group devotes efforts to consolidate its long-term relationship with renowned electrical brand companies, broaden and diversify its customer base across different regions, as well as to deploy resources efficiently to cater for different market demands for different products. With improving cost structure and appealing product designs, the Group is confident of having continuous and substantial growth in the sales of hair care appliances and becoming one of the major global OEM/ODM electrical hair appliances manufacturers in coming years.

The construction of our new plant is expected to be completed in early 2008. Our production capacity is expected to be increased by approximately one-fourth to one-third thereafter. We anticipate benefits in our enlarged capacity and efficient implementations across product development, marketing and cost control operational performance.

Additionally, strategic cooperation with valued partners is an important platform to bolster manufacturing efficiency, cost control and strengthen the Group's value chain of operations. The Group will continue to seek opportunities for further expansion in synergy with our core strategies to help us create greater value for our shareholders.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to our shareholders for their confidence in the Group, our worldwide customers for their trust and support in our products and services throughout the years, our staff for their dedication as well as our bankers and business associates for their continuing support.

By Order of the Board
**Lam Wai Ming**
*Chairman*

Hong Kong, 20 July 2007

## BUSINESS REVIEW

After undergoing a hard time last year, we witnessed a remarkable improvement on the performance of the Group for the financial year ended 31 March 2007. For the year ended 31 March 2007, turnover and net profit of the Group recorded HK$537.3 million and HK$46.3 million respectively, representing an increase of 33% and 1,017% as compared to HK$403.6 million and HK$4.1 million for last year.

## PROSPECTS

Despite severe competition in the small household electrical appliance industry, the Group's performance for the year ended 31 March 2007 recorded an encouraging result. We are well-prepared for the new requirements in electrical and electronic equipment (the WEEE and RoHS Directives), and we deliver quality products to our customers to further enhance our market position. Our reputation is further enhanced by gaining "Speed Award 2006" from our new customer which is one of the well-known international brands and " 10 Years of Fruitful Partnership and Mutual Success in Household Appliance Business Awards" from another.

Looking ahead, the persistent rises of the raw material costs, the surges of wages in the Dongguan region, the instability in electricity supply and the strength of Renminbi pose as challenges to the industry. In response, the Group has been implementing prudent cost control measures to cope with the challenging effects on its business. We have re-engineered our manufacturing processes and improved our supply chain processes for cost saving purpose. Our management has realized the importance of shifting towards semi-automation in order to reduce the reliance on intensive labour. We have upgraded our ERP system to deliver a more powerful data analysis at the back office. At the same time, our management has structured a financial arrangement to minimize our potential foreign currency risk exposure.

The construction of our new plant is expected to be completed in early 2008. Our production capacity is expected to be increased by approximately one-fourth to one-third thereafter. With the increased production capacity, we are optimistic to cope with future increase in market shares.

The Group has been focusing on developing new innovative products and expanding its markets. We will explore business opportunities in other new products categories and other niche markets. Our strategy remains to concentrate on developing better lifestyle products in ODM, OEM and OBM instead of traditional electrical appliances. To stay in line with our future organic and/or generic growth in the market, we will explore appropriate business opportunities in synergy with our business strategies to help us create greater value for our shareholders.

## FINANCIAL REVIEW

For the year ended 31 March 2007, the Group recorded a turnover of HK$537.3 million (2006: HK$403.6 million), representing an increase of approximately 33% over that of last year. The turnover attributable to the sale of electrical hair care products accounted for approximately HK$513.7 million, representing approximately 96% of the turnover of the Group. The increase was due to the successful launch of several new products in the first half of the financial year ended 31 March 2007 and the expansion of market shares in Europe, especially in Italy. Our preparation for the new requirements in electrical and electronic equipment (the WEEE and RoHS Directives) made us distinctive from the other market players. Turnover attributable to the European market increased by 31% to HK$343.4 million whereas turnover attributable to the Asian market has been experiencing persistent increase over the past three years. The other geographical area also recorded a slight increase in turnover this year.

## FINANCIAL REVIEW (Continued)

Our gross profit margin improved from 11.6% to 18.8%. The significant improvement was due to the more than proportionate increase in sales over the increase in cost of sales. The soaring in material costs had slowed down and our Group had been working hard on alternate sourcing of materials. In addition, our Group successfully launched a series of new hair styling apparatus in the targeted markets.

Our net profit margin reached 8.6%, achieving a significant improvement while that in the last year was 1.0%. Distribution cost was 1.3% of turnover while administrative expenses increased by 19% over that of last year. The increase in administrative expenses was mainly due to the increase in staff costs and the change in remuneration package to directors since listing.

### Capital Structure

The market capitalization of the Company as at 31 March 2007 was approximately HK$132 million.

### Liquidity And Financial Resources

As at 31 March 2007, the Group had cash and cash equivalents balance of approximately HK$116.8 million (31 March 2006: HK$63.3 million). As at 31 March 2007, the Group's net current assets were approximately HK$82.4 million (31 March 2006: HK$47.3 million). The gearing ratio as at 31 March 2007 was 34.6% while that as at 31 March 2006 was 34.1%. The current ratio as at 31 March 2007 maintained at 1.4 (31 March 2006: 1.3). 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.

As at 31 March 2007, the Group had aggregate banking facilities of HK$211.0 million (31 March 2006: HK$164.0 million), of which HK$130.3 million (31 March 2006: HK$81.4 million) was utilized.

## 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. The proceeds were used up to 31 March 2007 in the following manner:

| | Per prospectus | Amount utilised | Balance as at 31 March 2007 |
|---|---|---|---|
| | HK$ million | HK$ million | HK$ million |
| – construction of new plant | 20 | 0.3 | 19.7 |
| – installation of machinery and equipment | 9 | 9 | 0 |
| – research and development of electrical hair care products | 2 | 2 | 0 |
| – penetration and expansion into new and existing markets | 2 | 1.5 | 0.5 |
| – Group's general working capital | 1 | 1 | 0 |
| | 34 | 13.8 | 20.2 |

The remaining portion of the net proceeds was placed with banks in Hong Kong as short-term deposits.

Subsequent to 31 March 2007 and up to the date of this report, 1,000 warrants issued by the Company have been converted into 500 ordinary shares and hence HK$300 cash proceeds have been raised therefrom by the Company.

## 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$211.0 million (2006: HK$164.0 million) with respect to banking facilities made available to its subsidiaries. As at 31 March 2007, the borrowings outstanding against the facilities amounted to approximately HK$130.3 million (2006: HK$81.4 million). In the opinion of the Board, no material liabilities will arise from the above corporate guarantees in the ordinary course of the business and the fair value of the guarantees granted by the Company is immaterial.

## CHARGES ON ASSETS

The Group has no charges on assets as at 31 March 2007.

## 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. Certain costs of the Group are denominated in Renminbi. Since HK dollar has been pegged to US dollar, the Group's exposure to the currency risk in US dollars was minimal. Most of the Group's liquid fund is placed in principal guaranteed short-term dual currencies deposits in various banks during the year ended 31 March 2007. Since Renminbi has been appreciating against US dollar, the Group has structured a financial arrangement to minimize our potential foreign currency risk exposure.

## STAFF AND REMUNERATION POLICIES

As at 31 March 2007, the Group employed approximately 59 Hong Kong staff and operates a defined contribution pension scheme. The number of staff and seasonal workers employed by our factories in China was maintained at approximately 3,000 during the financial year ended 31 March 2007.

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 of which are 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.

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 2007.

## 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 18 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.

## 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 listed 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 dates inclusive) (the "**Warrants**") (together with the Shares, the "**Securities**") during the year ended 31 March 2007.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2007 are set out in the Consolidated Income Statement on page 35.

The Board now recommends the payment of a final dividend of HK2 cents per Share and a special final dividend of HK1 cent per Share for the year ended 31 March 2007 (2006: HK0.3 cent per Share), amounting to approximately HK$12 million (2006: HK$1.2 million), payable to the shareholders of the Company whose names appear on the register of members of the Company on Friday, 7 September 2007, Together with the interim dividend of HK1.5 cents per Share, paid in January 2007 (2006: HK1 cent per Share), amounting to HK$6 million (2006: HK$4 million), the total dividends for the year ended 31 March 2007 will be HK4.5 cents per Share (2006: HK1.3 cents per Share).

Subject to the approval of shareholders with regard to the proposed payment of the final dividends and the special final dividend totalling HK3 cents per Share at the forthcoming annual general meeting, the dividend warrants will be dispatched to shareholders on or about Monday, 17 September 2007.

## 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, 4 September 2007 to Friday, 7 September 2007, both days inclusive, during which period no transfer of Shares/Warrants and no Share 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 and the proposed special final dividend and/or to ascertain the right to attend the forthcoming annual general meeting of the Company, all transfers of Shares duly accompanied by the relevant Share certificates, and the appropriate transfer forms must be lodged for registration with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 3 September 2007. Warrantholders who wish to exercise of the subscription rights of the outstanding Warrants in order to qualify for the proposed final dividend and the proposed special final dividend and/or to ascertain the right to attend the forthcoming annual general meeting of the Company must lodge the duly completed subscription form together with the relevant Warrant certificates accompanied by the appropriate subscription monies with the Company's branch registrar not later than 4:00 p.m. on Monday, 3 September 2007. The last day in Hong Kong of dealings in the Shares with entitlement to the final dividend and the special final dividend will be on Thursday, 30 August 2007. Shares will be traded ex-dividend as from Friday, 31 August 2007.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 15 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 on pages 70 to 71 to the Financial Statements.

## RESERVES

Details of the movements in the reserves of the Group during the year are set out on page 39.

## DIRECTORS

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

*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 Li Chi Chung and Mr Li Tat Wah 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 and the senior management of the Group are set out on pages 22 to 23 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of Mr Li Chi Chung and Mr Li Tat Wah, 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).

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

Save as disclosed in Note 36 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.

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

As at 31 March 2007, 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 of Hong Kong Limited (the "**Stock Exchange**") pursuant to 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**") were as follows:

### Long position in the Securities of the Company

| Name of Director | Nature of interest | Total number of Shares | 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 was taken to be interested in an aggregate of 275,400,000 Shares as follows:

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

(b) 204,000,000 Shares were held by Beaute which was owned as to 50% by Apex Prima Limited ("**Apex Prima**") and 50% by Potentasia Holdings Inc ("**Potentasia**"). Apex Prima was wholly-owned by Mr Lam Wai Ming and Potentasia was wholly-owned by Mr Tam Chi Sang. Mr Lam Wai Ming was also a director of Beaute and the sole director of Apex Prima. Mr Lam Wai Ming was therefore taken to be interested in the 204,000,000 Shares that Beaute was interested; and

(ii) Mr Lam Wai Ming was 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.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS 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)

(2) Mr Tam Chi Sang was taken to be interested in an aggregate of 275,400,000 Shares as follows:

(i) Mr Tam Chi Sang was 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 were held by Realchamp which was wholly-owned by Mr Tam Chi Sang and he was the sole director of Realchamp. Mr Tam Chi Sang was therefore taken to be interested in the 40,800,000 Shares that Realchamp was interested;

(b) 204,000,000 Shares were held by Beaute which was owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima was wholly-owned by Mr Lam Wai Ming and Potentasia was wholly-owned by Mr Tam Chi Sang. Mr Tam Chi Sang was also a director of Beaute and the sole director of Potentasia. Mr Tam Chi Sang was therefore taken to be interested in the 204,000,000 Shares that Beaute was interested; and

(ii) Mr Tam Chi Sang was 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.

(3) Mr Chan Kwok Tung, Donny was taken to be interested in an aggregate of 16,200,000 Shares as follows:

(i) Mr Chan Kwok Tung, Donny was taken to be interested in an aggregate of 14,400,000 Shares held by Champion Sight Investments Inc ("**Champion Sight**"). Champion Sight was wholly-owned by Mr Chan Kwok Tung, Donny and he was the sole director of Champion Sight; and

(ii) Mr Chan Kwok Tung, Donny was 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 was owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima was wholly-owned by Mr Lam Wai Ming and Potentasia was wholly-owned by Mr Tam Chi Sang. Both Mr Lam Wai Ming and Mr Tam Chi Sang were the directors of Beaute. Mr Lam Wai Ming and Mr Tam Chi Sang were therefore taken to be interested in the shares in Beaute through their respective interests in Apex Prima and Potentasia.

Save as disclosed above, as at 31 March 2007, none of the Directors or chief executive of the Company had or was deemed (or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code) 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).

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

As at 31 March 2007, 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 were as follows:

### Long position in the Securities of the Company

| Name of substantial shareholder | Number of Shares held (other than under equity derivatives) | Number of Shares held under equity derivatives *(Note 1)* | Total number of Shares held | Percentage of issued Shares |
|---|---|---|---|---|
| Beaute | 204,000,000 | 25,500,000 | 229,500,000 | 57.38% |
| Apex Prima *(Note 2)* | 204,000,000 | 25,500,000 | 229,500,000 | 57.38% |
| Potentasia *(Note 3)* | 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 warrantholders. 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 31 March 2007, there was no conversion of the Warrants.

2. Apex Prima was taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which was owned as to 50% by Mr Lam Wai Ming and 50% by Mr Tam Chi Sang.

3. Potentasia was taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which was owned as to 50% by Mr Lam Wai Ming and 50% by Mr Tam Chi Sang.

Save as disclosed above, as at 31 March 2007, no person (other than Directors and chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which were recorded in the register required to be kept under section 336 of the SFO.

## 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**").

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 Persons (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.

***(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 member 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 at a price calculated in accordance with paragraph (c) below and "Options" shall be construed accordingly (the "**Options**").

## SHARE OPTION SCHEME (Continued)

### I) Share Option Scheme (Continued)

***(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.

***(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.

## SHARE OPTION SCHEME (Continued)

### I) Share Option Scheme (Continued)

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

(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.

(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.

During the financial year ended 31 March 2007, no option was granted by the Company under the Share Option Scheme.

## SHARE OPTION SCHEME (Continued)

### 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);

(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.

## SHARE OPTION SCHEME (Continued)

### II) Pre-IPO Share Option Scheme (Continued)

Particulars of outstanding options under Pre-IPO Share Option Scheme at the beginning and at the end of the financial year ended 31 March 2007 and the details of share options granted, exercised, cancelled and lapsed during the year were as follows:

| Name of grantee | Date of grant | Exercise period of share option | Exercise price of share option HK$ | No. of share options held at 1 April 2006 | 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 2007 |
|---|---|---|---|---|---|---|---|---|
| **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 Former 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 Former 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 | – | – | 1,200,000 | 2,800,000 |

* 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.

# Mr Law Tak Wai resigned as the Operation Manager of the Group during the financial year ended 31 March 2007.

@ Mr Wong Siu Man resigned as the Senior Materials Manager of the Group during the financial year ended 31 March 2007. The outstanding 600,000 share options granted to Mr Wong were automatically lapsed under the Pre-IPO Share Option Scheme subsequent to 31 March 2007.

Save as disclosed above, no option was granted, exercised, cancelled and lapsed by the Company under the Pre-IPO Share Option Scheme during the financial year ended 31 March 2007.

## SHARE OPTION SCHEME (Continued)

### Fair Value of the Pre-IPO Share Options

For the determination of the fair value of the share options granted under the Pre-IPO Share Option Scheme (the "**Pre-IPO Share Options**"), reference was made to the Binomial Option Pricing Model. 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 were taken in account. In addition, it requires input of assumptions that have significant sensitivity effects, including the approximation of the stock price at the date of grant 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, 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 79 and 80.

## 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 36 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.

## 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.

**(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 49.3% of the total sales for the year and sales to the largest customer included therein amounted to approximately 12.8%.

Purchases from the Group's five largest suppliers accounted for approximately 30.2% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 10.2%.

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 2007, except for the deviation from the CG Code Provisions A.1.1 and A.2.1. The Company has published its corporate governance report, details of which are set out on pages 24 to 31 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. On 1 August 2005, the practice of BDO McCabe Lo & Company was reorganised as BDO McCabe Lo Limited. The Financial Statements of the Company for the year ended 31 March 2006 and the accompanying Financial Statements for the year ended 31 March 2007 have been audited by BDO McCabe Lo Limited who will retire and being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting 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$10,847 (2006: HK$3,000).

On behalf of the Board
**KENFORD GROUP HOLDINGS LIMITED**

**Lam Wai Ming**
*Chairman*

Hong Kong, 20 July 2007

## DIRECTORS

### Executive Directors

**Mr Lam Wai Ming**, aged 48, 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 47, 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 director of Hong Kong Electrical Appliances Manufacturers Association.

**Mr Chan Kwok Tung, Donny**, *FCIS, FCS, ACIB, AHKIB*, aged 44, 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.

### Independent Non-Executive Directors

**Mr Chiu Fan Wa**, *FCCA, FCPA (Practising), ACA, ACIS, ACS,* aged 42, 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 a member of the Remuneration Committee, being 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.

## DIRECTORS (Continued)

### Independent Non-Executive Directors (Continued)

**Mr Li Chi Chung**, aged 38, has been the Independent Non-Executive Director of the Company since March 2005. He is also currently serving as a member of the Audit Committee, the Remuneration Committee and the Nomination Committee, being 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.

**Mr Li Tat Wah**, aged 37, 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, a member of the Audit Committee and the Nomination Committee, being 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 46, 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 hard toys. He graduated from The University of Warwick with a master degree of Science in Engineering Business Management.

**Mr Yeung Kin Wing, Ramo**, aged 37, joined the Group in June 1998 and was promoted as the Operation Manager of the Group in May 2006. Mr Yeung has over 17 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.

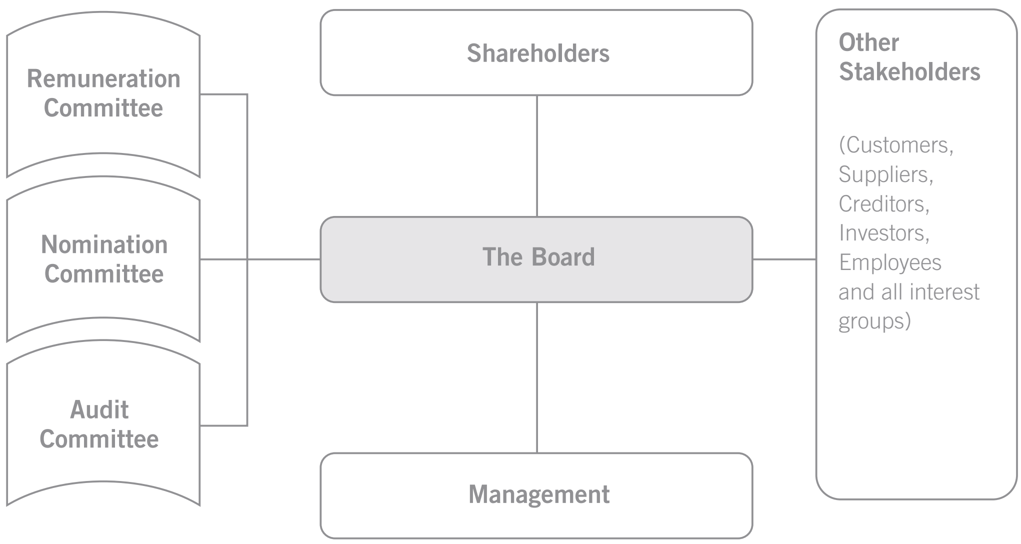
**Mr Lam Wai Hung**, aged 37, joined the Group in February 1993 and is the Administration Manager of the Group. Mr Lam has over 10 years' experience in factory administration and in handling regulatory compliance in the PRC. Mr Lam is the brother of Mr Lam Wai Ming, the Executive Director and the Chairman of the Company.

**Ms Chan Tsz Ping**, *CPA, FCCA,* aged 32, joined the Group in July 2004 and 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 9 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 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 2007, except for the deviations from the CG Code Provision A.1.1 and CG Code Provision A.2.1. This corporate governance report contains detailed explanations on the Company's practices in compliance with the applicable CG Code Provisions and the considered reasons for such deviations.

To enhance accountability, transparency, independence, responsibility and fairness to the shareholders and stakeholders, the Company is dedicated to develop an appropriate framework of corporate governance for the Company and its subsidiaries (collectively, the "**Group**"), the chart of which is shown as below. The Group will keep on implementing and reviewing our corporate governance practices and procedures from time to time for ensuring its commitment to the corporate governance standard and striving for the enhancement of shareholder value.




## 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 2007.

## BOARD OF DIRECTORS

### Board functions

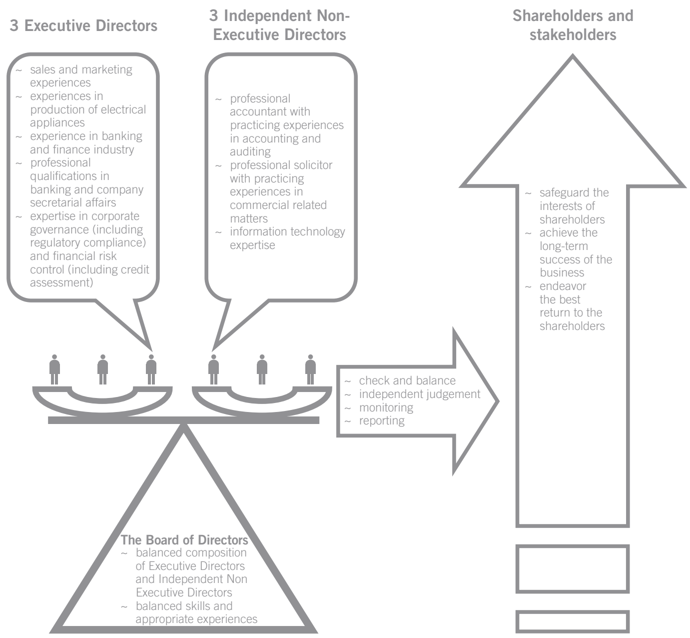
The Board oversees the strategic development, determines objectives, strategy, policy and business plan of the company. It monitors and controls the operation and financial performance, reviews the corporate governance standard of the Company and sets appropriate policies pursuant to the Company objectives.

## BOARD OF DIRECTORS (Continued)

### 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) and 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 22 to 23 of this annual report. Save as disclosed in this annual report, none of our Directors has any business, financial or family relationship with each other and the Company.

The Board maintains equal number of Executive Directors and Independent Non-Executive Directors. The Board believes it is a balanced composition as each of the Directors has his own skills, expertise, professional qualifications and appropriate experiences to effectively oversee the business of the Group. The balanced composition enables effective exercise of independent judgement for the business activities of the Group to safeguard the interests of the shareholders and to improve standard in corporate governance to fulfill the demands of the shareholders and stakeholders of the Group.




During the financial year ended 31 March 2007, 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/the half-yearly 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 insurance 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 the authorities to the board committees and the senior management of the Company to provide professional advice and monitor the daily operation of the Group on issues which require discussion, expertise knowledge and experience to make the decision. The three committees of the Board, namely, Remuneration Committee, Nomination Committee and Audit Committee, are responsible for making recommendation on specified matters in line with the terms of reference adopted by the Board set out separately. The senior management is responsible for supervision on the daily operation of the Group by functions. Besides, in order to improve the effectiveness of the management of the Group, a new management services company has been established under the Group. To have a glance of the corporate structure of the Group, please refer to page 32 of this annual report. The new management services company has invited all the Executive Directors of the Company and most of the senior management of the Group to sit on its board of directors to provide quality management services to the Group.

## BOARD OF DIRECTORS (Continued)

### Board and 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 2007 were as follows:

| | Number of meetings attended | | | | |
|---|---|---|---|---|---|
| Name of Directors | Board meetings (Note) | Remuneration Committee meeting | Nomination Committee meeting | Audit Committee meetings | Shareholders' General Meeting |
| **Executive Directors** | | | | | |
| Mr Lam Wai Ming | 17/17 | N/A | N/A | N/A | 1/1 |
| Mr Tam Chi Sang | 16/17 | N/A | N/A | N/A | 1/1 |
| Mr Chan Kwok Tung, Donny | 17/17 | N/A | N/A | N/A | 1/1 |
| **Independent Non-Executive Directors** | | | | | |
| Mr Chiu Fan Wa | 2/17 | 1/1 | 1/1 | 2/2 | 1/1 |
| Mr Li Chi Chung | 2/17 | 0/1 | 0/1 | 0/2 | 0/1 |
| Mr Li Tat Wah | 2/17 | 1/1 | 1/1 | 2/2 | 1/1 |

Note: There were two (2) regular meetings with formal notice and agenda held during the financial year ended 31 March 2007.

Code Provision A.1.1 stipulates that the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals. There were totally 17 Board meetings held during the financial year ended 31 March 2007, out of which there were only 2 regular meetings with formal notice and agenda. The Board believes that the fairness and effectiveness for the decision making on the business needs are adequately ensured. In view of good corporate governance practices. the Board will use its endeavours to meeting regularly and hold at least four regular Board meetings in the forthcoming years.

The regular Board meetings at approximately half yearly intervals were held during the financial year ended 31 March 2007. The notices were given at least 14 days in advance for each of the regular Board meeting to all the Directors so that they could have an opportunity to attend the same in person during the year. On ad hoc basis, the Executive Directors met together upon 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 at least 3 days 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 open 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 details 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 are 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 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.

### Remuneration Committee compositions

The Remuneration Committee comprised 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

During the financial year ended 31 March 2007, the Remuneration Committee had met once to discuss the following matters:–

- to review the overall remuneration policy and remuneration packages of the Group;
- to review the basic salary of the Executive Directors and senior management of the Group for the financial year ended 31 March 2006;
- to review the performance bonus of the Executive Directors of the Company for the financial year ended 31 March 2006;
- to propose the remuneration packages of the Executive Directors and senior management of the Group for the financial year ended 31 March 2007 prior to recommending them to the Board for determination; and
- to note the fact that no compensation was paid to the Executive Directors and senior management of the Group in relation to their resignation, if any, during the financial year ended 31 March 2006.

The details of the number of the Remuneration Committee meetings held during the financial year ended 31 March 2007 and the relevant record of individual attendance of the members of the Remuneration Committee, on a named basis, are shown in the table under the heading "Board, Board committees and general meetings" on page 26 of this corporate governance report.

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 from the Group for the year are as disclosed in Note 14 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 of 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 a result of the establishment and the adoption of the written terms of reference of the Nomination Committee, it has been developed a formal, considered 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.

A proposal for the appointment of a new Directors will be considered and reviewed by the Nomination Committee. The Nomination Committee will consider the skills and expertise of the candidates as well as personal ethics, integrity and the willingness to commit time to the affairs of the Group. All candidates must be able to meet the standards set out in the Listing Rules. A candidate who is to be appointed as an Independent Non-Executive Directors should also be meet the independence criteria set out in Rule 3.13 of the Listing Rules.

### Nomination Committee compositions

The Nomination Committee comprised 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

During the financial year ended 31 March 2007, the Remuneration Committee had met once to discuss the following matters:–

– to consider the structure, size, and composition of the Board for the financial year ended 31 March 2006;
– to consider no new Board member be nominated and introduced to the Board;
– to consider the re-selection of the Directors of the Company at the annual general meeting of the Company held on 8 September 2006.

The details of the number of the Nomination Committee meetings held during the financial year ended 31 March 2007 and the relevant record of individual attendance of the members of the Nomination Committee, on a named basis, are shown in the table under the heading "Board, Board committees and general meetings" on page 26 of this corporate governance report.

## AUDITORS' REMUNERATION

During the financial year ended 31 March 2007, the Company engaged BDO McCabe Lo Limited as the external auditors of the Company to perform audit and non-audit services. The audit fee was approximately HK$500,000 and other non-audit service fee was approximately HK$113,000 for the year ended 31 March 2007.

## 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 legal requirements, as well as to review the Company's annual reports and interim reports.

### 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, who is a qualified accountant with appropriate professional qualification and experience in financial matters, was appointed as the chairman of the Audit Committee. None of the Audit Committee members are members of the former or existing auditors of the Company.

### Audit Committee meetings

During the financial year ended 31 March 2007, the Audit Committee had met two times to discuss the following matters:–

– to review the final results for the year ended 31 March 2006 of the Group prior to recommending them to the Board for approval;
– to review the interim results for the six months ended 30 September 2006 of the Group prior to recommending them to the Board for approval;
– to review the effectiveness of the internal control system; and
– to review the selection and re-appointment of the external auditors of the Company for the financial year ended 31 March 2007 prior to recommending them to the Board for approval and the Board had agreed with the Audit Committee's view on this matter.

The details of the number of the Audit Committee meetings held during the financial year ended 31 March 2007 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 26 of this corporate governance report.

As at the date of this corporate governance report, the Audit Committee together with the management, has reviewed the accounting principles and practices adopted by the Group and has discussed auditing, internal control and financial reporting matters including the review of audited consolidated financial statements of the Group for the financial year ended 31 March 2007.

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 ending 31 March 2008.

## INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT

During the financial year ended 31 March 2007, the articles and association of the Company had been amended and modified to reflect the changes brought about by the Listing Rules.

## INVESTOR RELATIONS AND SHAREHOLDERS' RIGHT (Continued)

The Company uses a number of formal communications channels to communicate with shareholders and investors for the performance of the Company. These include: (i) the publication of interim and annual reports and/or dispatching circular, notices, other announcements and notifications; (ii) conducting annual general meeting or extraordinary general meeting (if any) which provides a forum for Shareholders to raise comments and exchange views with the Board; and (iii) updating the websites with corporate information, achievements and new development of the Group. The public float capitalization as at 31 March 2007 has been shown in page 32 of this annual report.

To strengthen the investors' relationship, the Company provides different ways for investors to access the soft and hard copies of the Company's information. The printed copies of this annual report in both English and Chinese languages will be dispatched to the Shareholders in late July 2007. Shareholders can obtain corporate communications free of charge by notice in writing to the Company Secretary of the Company. This annual report in both English and Chinese language is also available on the following websites:–

(a) www.hkex.com.hk; (b) www.kenford.com.hk; and (c) www.equitynet.com.hk/0464.

During the financial year ended 31 March 2007, no extraordinary general meeting was held. 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 8 September 2006 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 2006; (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 general mandates to the Directors to exercise the powers of the Company to issue Shares and to repurchase Shares and Warrants respectively and the special resolution in relation to the amendments to the articles of association of the Company has been passed.

The details of the number of the annual general meeting of the Company held during the financial year ended 31 March 2007 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 26 of this corporate governance report.

The forthcoming annual general meeting of the Company will be held on Friday, 7 September 2007. The notice of the annual general meeting of the Company will be published and be dispatched to the Shareholders 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. The Board through the Audit Committee has conducted a 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 regarding the Company's ability to continue as a going concern required to be disclosed.

## INTERNAL CONTROL AND RISK MANAGEMENT (Continued)

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 implementing 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 to avoid the breach of financial regulations, Listing Rules, companies ordinance requirements and other regulations and laws. The Group would seek advice from external advisers on accounting, financial and legal issues if necessary.

## MANAGEMENT FUNCTIONS

The Board has delegated aspects of its management and administration functions to the management. The management should report back and obtain prior approval from the Board before making decisions or entering into any agreements or arrangements to discharge its functions. The Directors clearly understand the Group's delegation arrangements in place. The key terms and conditions relative to the Directors' appointments have been set out in their services agreements and/or letters of appointments.

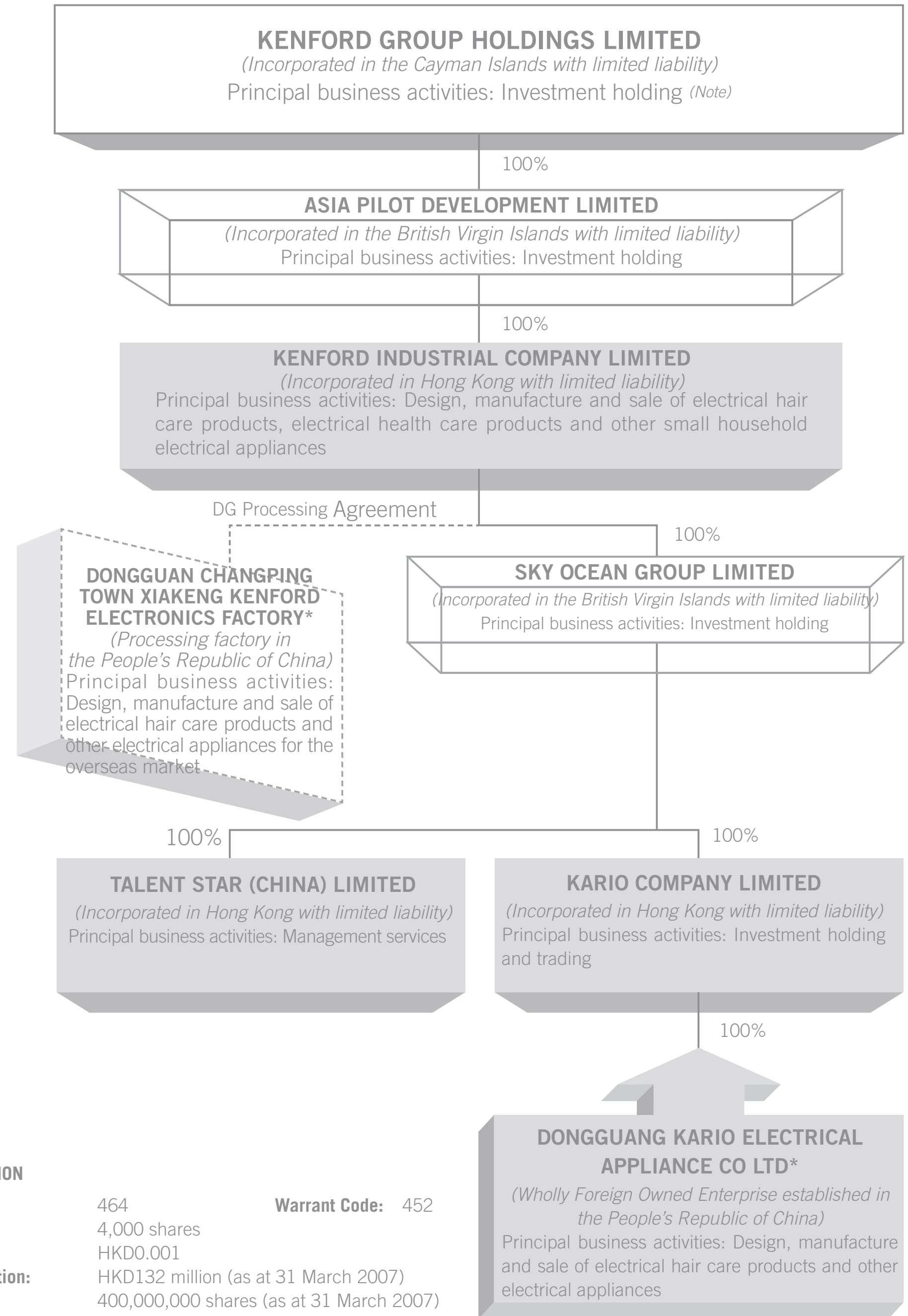
## LOOKING FORWARD

The Company is also aware the expiry dates of the service agreements of the Executive Directors and the letters of appointment of the Independent Non-Executive Directors of the Company. The relevant agreements or the formal letters will be reviewed and renewed in terms to be determined by the Board upon the recommendations of the Remuneration Committee.

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

## CORPORATE STRUCTURE OF THE GROUP

The following chart provides the overview of the corporate structure of Kenford Group Holdings Limited and its subsidiaries (the "**Group**") as at 20 July 2007.




*Note:*

**SHARE INFORMATION**

**Stock Code:** 464 **Warrant Code:** 452
**Board Lot:** 4,000 shares
**Par Value:** HKD0.001
**Market Capitalisation:** HKD132 million (as at 31 March 2007)
**Issued Capital:** 400,000,000 shares (as at 31 March 2007)
**Closing Price at 30 March 2007, the last trading date of the financial year ended 31 March 2007:** HKD0.33

* The English names are translated from their Chinese names. If there is any inconsistency, the Chinese names shall prevail.

# Independent Auditor's 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
111 Connaught Road Central
Hong Kong
Telephone: (852) 2541 5041
Facsimile : (852) 2815 2239

香港干諾道中111號
永安中心25樓
電話：(852) 2541 5041
傳真：(852) 2815 2239

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

We have audited the financial statements of Kenford Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 78, which comprise the consolidated and Company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards 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, 20 July 2007

# Consolidated Income Statement

For the year ended 31 March 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Turnover** | 4 | 537,273 | 403,551 |
| Cost of sales | | (436,406) | (356,874) |
| Gross profit | | 100,867 | 46,677 |
| Other income and gains | 5 | 8,086 | 8,588 |
| Distribution costs | | (7,162) | (8,309) |
| Administrative expenses | | (43,368) | (36,480) |
| **Profit from operations** | 7 | 58,423 | 10,476 |
| Finance costs | 9 | (7,915) | (5,728) |
| **Profit before income tax expense** | | 50,508 | 4,748 |
| Income tax expense | 10 | (4,193) | (601) |
| **Net profit attributable to equity holders of the Company** | | 46,315 | 4,147 |
| **Dividends:** | 12 | | |
| Interim dividend paid | | | |
| – ordinary | | 6,000 | 4,000 |
| Final dividend proposed | | | |
| – ordinary | | 8,000 | 1,200 |
| – special | | 4,000 | – |
| | | 18,000 | 5,200 |
| **Earnings per share (cents)** | 13 | | |
| Basic | | 11.579 | 1.094 |
| Diluted | | 11.558 | 1.090 |

# Consolidated Balance Sheet

As at 31 March 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **96,167** | 91,461 |
| Payments for leasehold land held for own use under operating leases | 16 | **3,236** | 3,247 |
| Goodwill | 17 | **1,403** | 1,403 |
| **Total non-current assets** | | **100,806** | 96,111 |
| **Current assets** | | | |
| Inventories | 19 | **55,853** | 54,207 |
| Trade and bills receivables | 20 | **94,719** | 69,363 |
| Deposits, prepayments and other receivables | | **7,940** | 8,479 |
| Tax recoverable | | **–** | 1,866 |
| Cash and cash equivalents | 21(a) | **116,841** | 63,334 |
| **Total current assets** | | **275,353** | 197,249 |
| **Total assets** | | **376,159** | 293,360 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and bills payables | 22 | **55,430** | 46,291 |
| Accruals and other payables | | **15,690** | 15,461 |
| Borrowings – due within one year | 23 | **84,779** | 69,204 |
| Bank advances for discounted bills | 20 | **31,466** | 18,534 |
| Obligations under finance leases – due within one year | 24 | **1,973** | 457 |
| Tax payable | | **3,583** | 48 |
| **Total current liabilities** | | **192,921** | 149,995 |
| **Non-current liabilities** | | | |
| Borrowings – due after one year | 23 | **8,367** | 11,607 |
| Obligations under finance leases – due after one year | 24 | **3,501** | 155 |
| Deferred tax liabilities | 25 | **6,434** | 6,100 |
| **Total non-current liabilities** | | **18,302** | 17,862 |
| **Total liabilities** | | **211,223** | 167,857 |
| **Net current assets** | | **82,432** | 47,254 |
| **Total assets less current liabilities** | | **183,238** | 143,365 |
| **TOTAL NET ASSETS** | | **164,936** | 125,503 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 26 | **400** | 400 |
| Share premium | | **36,317** | 36,317 |
| Merger reserve | | **942** | 942 |
| Share-based compensation reserve | | **700** | 1,000 |
| Properties revaluation reserve | | **9,111** | 9,111 |
| Exchange fluctuation reserve | | **330** | 12 |
| Retained profits | | **105,136** | 76,521 |
| Proposed final dividend | | **12,000** | 1,200 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY** | | **164,936** | 125,503 |

On behalf of the Board

**Lam Wai Ming**
*Director*

**Tam Chi Sang**
*Director*

# Balance Sheet

As at 31 March 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 18 | 58 | 58 |
| **Current assets** | | | |
| Deposits, prepayments and other receivables | | 202 | 35 |
| Amounts due from subsidiaries | 18 | 34,546 | 8,976 |
| Cash and cash equivalents | | 16,610 | 28,805 |
| **Total current assets** | | 51,358 | 37,816 |
| **Total assets** | | 51,416 | 37,874 |
| **Current liabilities** | | | |
| Accruals and other payables | | 194 | 164 |
| **Net current assets** | | 51,164 | 37,652 |
| **NET ASSETS** | | 51,222 | 37,710 |
| **Capital and reserves** | | | |
| Share capital | 26 | 400 | 400 |
| Reserves | 28 | 50,822 | 37,310 |
| **TOTAL EQUITY** | | 51,222 | 37,710 |

On behalf of the Board

**Lam Wai Ming**
*Director*

**Tam Chi Sang**
*Director*

# Consolidated Cash Flow Statement

For the year ended 31 March 2007

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax expense | | 50,508 | 4,748 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 13,664 | 12,111 |
| Amortisation of payments for leasehold land held for own use under operating leases | | 72 | 71 |
| Loss on disposal of property, plant and equipment | | 157 | – |
| Interest income | | (1,607) | (1,205) |
| Interest expenses | | 7,915 | 5,728 |
| Share-based payment expenses | | – | 1,000 |
| **Operating profit before working capital changes** | | 70,709 | 22,453 |
| (Increase)/decrease in inventories | | (1,646) | 6,674 |
| Increase in trade and bills receivables | | (25,356) | (22,483) |
| Decrease in deposits, prepayments and other receivables | | 539 | 4,138 |
| Increase/(decrease) in trade and bills payables | | 9,139 | (9,007) |
| Increase/(decrease) in accruals and other payables | | 229 | (159) |
| **Cash generated from operations** | | 53,614 | 1,616 |
| Income tax refunded/(paid), net | | 1,426 | (4,628) |
| Net cash generated from/(used in) operating activities | | 55,040 | (3,012) |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (12,536) | (13,149) |
| Decrease in pledged bank deposits | | – | 6,051 |
| Proceed from disposal of property, plant and equipment | | 268 | – |
| Interest received | | 1,607 | 1,205 |
| **Net cash used in investing activities** | | (10,661) | (5,893) |
| **Cash flows from financing activities** | | | |
| Proceed from issue of shares | | – | 55,000 |
| Share issue expenses | | – | (18,383) |
| Increase/(decrease) in trust receipt loans | | 20,575 | (13,665) |
| Repayment of bank loans | | (8,240) | (3,150) |
| Interest paid | | (7,915) | (5,728) |
| Increase in bank advances for discounted bills | | 12,932 | 18,534 |
| Repayment of finance lease liabilities | | (841) | (1,001) |
| Dividend paid | | (7,200) | (36,489) |
| **Net cash generated from/(used in) financing activities** | | 9,311 | (4,882) |
| **Net increase/(decrease) in cash and cash equivalents** | | 53,690 | (13,787) |
| **Cash and cash equivalents at beginning of year** | | 63,334 | 77,176 |
| **Effect of foreign exchange rate change** | | (183) | (55) |
| **Cash and cash equivalents at end of year** | 21(a) | 116,841 | 63,334 |

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

## 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 2006 | 400 | 36,317 | 942 | 1,000 | 9,111 | 12 | 1,200 | 76,521 | 125,503 |
| Exchange realignments | – | – | – | – | – | 318 | – | – | 318 |
| Profit for the year | – | – | – | – | – | – | – | 46,315 | 46,315 |
| Total recognised income and expense | – | – | – | – | – | 318 | – | 46,315 | 46,633 |
| Lapse upon non-exercise of share options | – | – | – | (300) | – | – | – | 300 | – |
| 2006 final dividend paid | – | – | – | – | – | – | (1,200) | – | (1,200) |
| Interim dividend paid | – | – | – | – | – | – | – | (6,000) | (6,000) |
| Proposed special final dividend | – | – | – | – | – | – | 4,000 | (4,000) | – |
| Proposed final dividend | – | – | – | – | – | – | 8,000 | (8,000) | – |
| At 31 March 2007 | 400 | 36,317 | 942 | 700 | 9,111 | 330 | 12,000 | 105,136 | 164,936 |

| | 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 income and expense | – | – | – | – | – | 12 | – | 4,147 | 4,159 |
| 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 |

## 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. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 June 2005. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. 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 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 revalued amounts or fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 30.

### (c) 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 in preparing the consolidated financial statements.

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.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) Basis of consolidation (Continued)

The results of subsidiaries acquired or disposed 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.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment loss, if any.

### (d) 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. In assessing control, potential voting rights that presently are exercisable are taken into account.

### (e) 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 consolidated 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 consolidated income statement.

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rate on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

### (f) Property, plant and equipment

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

Certain leasehold land and buildings in Hong Kong and leasehold buildings in the PRC components held for use in the production or for administrative purpose 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 amounts do not differ materially from that which would be determined using fair values at the balance sheet date.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (f) Property, plant and equipment (Continued)

Any revaluation increase arising on the revaluation of such property is credited to the properties 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 properties revaluation reserve relating to the previous revaluation of that asset.

Upon disposal, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the properties revaluation reserve to retained earnings.

Property, plant and equipment are depreciated at rates sufficient to write off their cost or valuation net of expected residual value 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 |
| Leasehold 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 |

The asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than the asset's estimated recoverable amount.

Construction in progress represents buildings on which construction work has not been completed. Construction in progress is carried at costs which include development and construction expenditure incurred and interest and other direct costs attributable to the development less any accumulated impairment losses. No depreciation is provided in respect of construction in progress until it is completed and is ready for its intended use. On completion, constructions in progress are transferred to other property, plant and equipment at cost or valuation less accumulated impairment losses.

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

### (g) Impairment of other assets

At each balance sheet date, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- payments for leasehold land held for own use under operating leases; and
- investments in subsidiaries.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (g) Impairment of other assets (Continued)

If the recoverable amount (i.e. the greater of the net selling price and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the impairment loss is treated as a revaluation decrease under that HKFRS.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another HKFRS, in which case the reversal of the impairment loss is treated as a revaluation increase under that other HKFRS.

### (h) Foreign currencies

Transactions entered into by Group entities in currencies other than the currency of the primary economic environment in which it operates (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. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. 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.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the results of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of overseas operations are translated at the rate 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 exchange fluctuation reserve if the item is denominated in the functional currency of the Group or the overseas operation concerned.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (h) Foreign currencies (Continued)

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

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the foreign exchange reserve.

### (i) Financial Instruments

#### *(i) Financial assets*

The Group classifies its financial assets into the following categories according to the purpose for which the asset was acquired.

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the consolidated income statement.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise.

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 and bills receivables), 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.

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Held-to-maturity investments: These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (i) Financial Instruments (Continued)

#### *(i) Financial assets (Continued)*

An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets: Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise the Group's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognised directly in equity. Where a decline in the fair value of an available-for sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the consolidated income statement.

Any impairment losses on available-for-sale financial assets are recognised in the income statement on available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

#### *(ii) Financial liabilities*

The Group classifies its financial liabilities as other financial liabilities based on the purpose for which the liabilities were incurred.

Other financial liabilities include the following items:

- Trade payables and other short-term monetary liabilities 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) Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (i) Financial Instruments (Continued)

#### *(iv) Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

#### *(v) 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.

Financial liabilities are derecognised when the objection specified in the relevant contract is discharged, cancelled or expires.

### (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 when the services are rendered by the employees.

#### *(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) Other 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.

## 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 with a corresponding increase in the share-based compensation reserve within equity. 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 or services received unless the goods or services qualify for recognition as assets. A corresponding increase in equity is recognised. For cash-settled share-based payments, a liability is recognised at the fair value of the goods or 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 payments for 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. When the lease payments cannot be allocated reliably between the land and building elements, the leasehold interests in land continue to be accounted for as property, plant and equipment.

### (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.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (n) Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated 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.

### (o) 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.

Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (p) 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.

### (q) 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 based on tax rates that have been enacted or substantively enacted at the balance sheet date.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (q) Income taxes (Continued)

Income taxes are recognised in the income statement except when they relate to items directly recognised to equity in which case the taxes are also directly recognised in equity.

### (r) 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.

### (s) 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.

### (t) 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 property, 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. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time the following new standards, amendments and interpretations issued by HKICPA where considered appropriate and relevant to its operations. Management considers that the adoption of the below has no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 & HKFRS 4 (Amendment) | Financial Guarantee Contracts |
| HK (IFRIC)-Int 4 | Determining Whether an Arrangement contains a lease |

No early adoption of the following new standards, interpretations or amendments that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures [4] |
| HKAS 23 (Revised) | Borrowing Costs [1] |
| HKFRS 7 | Financial instruments: Disclosures [4] |
| HKFRS 8 | Operating Segments [1] |
| HK(IFRIC) –Interpretation 8 | Scope of HKFRS 2 [7] |
| HK(IFRIC) – Interpretation 9 | Reassessment of Embedded Derivatives [6] |
| HK(IFRIC) – Interpretation 10 | Interim Financial Reporting and Impairment [5] |
| HK(IFRIC) – Interpretation 11 | Group and Treasury Share transactions [3] |
| HK(IFRIC) – Interpretation 12 | Service Concession Arrangements [2] |

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 January 2008
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2007
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 June 2006
7 Effective for annual periods beginning on or after 1 May 2006

The Group is in the process of assessing the impact to the Group's accounting policies on the adoption of the above standards and interpretations in future periods, but is not in a position to state whether these new standards and interpretations would have a significant impact on its 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 INCOME AND GAINS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Reimbursement of mould costs | **3,362** | 5,484 |
| Interest income | **1,607** | 1,205 |
| Gain on foreign currencies contracts | **419** | – |
| Sample sales | **237** | 234 |
| Compensation received | **686** | 262 |
| Sundry income | **1,775** | 1,403 |
| | **8,086** | 8,588 |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

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.

### (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:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Europe | **343,428** | 261,751 |
| North and South America | **85,291** | 82,158 |
| Asia | **66,482** | 35,390 |
| Australia | **33,729** | 19,574 |
| Africa | **8,343** | 4,678 |
| | **537,273** | 403,551 |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### (b) Geographical segments (Continued)

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

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Hong Kong | 205,346 | 150,358 |
| PRC (excluding Hong Kong) | 169,410 | 141,599 |
| | 374,756 | 291,957 |
| Goodwill | 1,403 | 1,403 |
| | 376,159 | 293,360 |

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

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Hong Kong | 509 | 381 |
| PRC (excluding Hong Kong) | 17,730 | 12,768 |
| | 18,239 | 13,149 |

## 7. PROFIT FROM OPERATIONS

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

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Auditors' remuneration | 613 | 475 |
| Cost of inventories recognised as an expense | 436,406 | 356,874 |
| Depreciation of property, plant and equipment | | |
| – Owned | 12,219 | 11,701 |
| – Held under finance leases | 1,445 | 410 |
| Exchange (gain)/losses, net | (51) | 1,344 |
| Loss on disposal of property, plant and equipment | 157 | – |
| Staff costs (note 8) | | |
| – Basic salaries, bonuses, allowances and benefits in kind | 71,718 | 58,015 |
| Less: Amount paid under PRC sub-processing agreements | (44,375) | (37,175) |
| | 27,343 | 20,840 |
| Research and development costs *(note (i))* | 4,067 | 4,361 |
| Amortisation on payments for leasehold land held for own use under operating leases | 72 | 71 |
| Minimum lease payments paid under operating leases | 1,018 | 268 |
| Impairment loss on trade and bills receivables | 686 | 199 |
| Write-down of inventories | 3,736 | 443 |

*Note:*

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

## 8. STAFF COSTS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Staff costs (including directors' emoluments *(note 14(a))*) comprise: | | |
| Salaries and welfare expenses | 71,222 | 56,548 |
| Retirement benefits scheme contributions | 496 | 467 |
| Share-based payment expenses *(note 27)* | – | 1,000 |
| | 71,718 | 58,015 |

## 9. FINANCE COSTS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank borrowings and overdrafts *(note (i))* | 1,252 | 985 |
| Trust receipt loans | 6,567 | 4,674 |
| Finance leases | 96 | 69 |
| | 7,915 | 5,728 |

*Note:*

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

## 10. INCOME TAX EXPENSE

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

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Current tax – Hong Kong Profits Tax | | |
| – tax for the year | 3,917 | 255 |
| – under provision in respect of prior years | 58 | – |
| Current tax – PRC enterprise income tax ("EIT") | | |
| – tax for the year | – | 49 |
| | 3,975 | 304 |
| Deferred tax *(Note 25)* | | |
| – current year | 147 | 338 |
| – under/(over) provision in respect of prior years | 71 | (41) |
| | 218 | 297 |
| Income tax expense | 4,193 | 601 |

## 10. INCOME TAX EXPENSE (Continued)

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

Hong Kong profits tax is calculated at 17.5% (2006: 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"), being a foreign investment enterprise, is subject to EIT rate of 24%, together with the local EIT at a rate of 3%, DG Kario is subject to the aggregate EIT at a rate of 27%. 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.

Pursuant to the PRC EIT law passed by the Tenth National People's Congress on 16 March 2007, the new EIT rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of this change in EIT rates on the Group's consolidated financial statements will depend on detailed implementation pronouncements that are to be issued subsequently. The Group is currently assessing the impact on the Group's results of operations and financial position of this change in EIT rates.

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

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit before income tax expense | **50,508** | 4,748 |
| Tax calculated at the domestic income tax rate of 17.5% | **8,839** | 831 |
| Effect of different tax rates of a subsidiary operating in other jurisdiction | **228** | (100) |
| Tax concessions of a PRC subsidiary | **(420)** | (49) |
| Tax effect of income not taxable in determining taxable profit *(note (i))* | **(4,327)** | (921) |
| Utilisation of temporary differences previously not recognised | **(600)** | – |
| Tax effect of expense not deductible for tax purpose | **181** | 881 |
| Under/(over) provision of deferred tax liability in prior years | **76** | (41) |
| Under provision of current tax in respect of prior years | **58** | – |
| Other | **158** | – |
| Income tax expense | **4,193** | 601 |

*Note:*

(i) This amount mainly represented the tax effect of the 50% of assessable profit of a subsidiary, Kenford Industrial Company Limited ("Kenford HK") which was exempted under Departmental Interpretation of Practice Notes 21 issued by the Inland Revenue Department of Hong Kong in respect of claiming 50% of all the Kenford HK manufacturing profits as offshore in nature and non-taxable.

## 11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders includes an amount of HK$20,712,000 (2006: HK$3,993,000) which has been dealt with in the financial statements of the Company.

## 12. DIVIDENDS

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Interim, paid HK1.5 cents (2006: HK1 cent) per share | 6,000 | 4,000 |
| Final, proposed HK2 cents (2006: HK0.3 cent) per share *(note (i))* | 8,000 | 1,200 |
| Special, proposed HK1 cent (2006: Nil) per share *(note (i))* | 4,000 | – |
| | 18,000 | 5,200 |

(i) The directors recommended a final dividend of HK2 cents per share and special final dividend of HK1 cent per share. This proposed dividend is not reflected as a dividend payable at 31 March 2007. It is reflected as an appropriation of retained profits for the year 31 March 2007 according to the accounting standard prescribed under HKAS 10 "Events After the Balance Sheet Date".

## 13. 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:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Earnings:** | | |
| Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to equity holders of the Company) | 46,315 | 4,147 |

| | Number of shares | Number of shares |
|---|---|---|
| **Weighted average number of ordinary shares for the purpose of** basic earnings per share | 400,000 | 378,904 |
| Effect of dilutive potential ordinary shares: | | |
| Share options | 701 | 1,679 |
| **Weighted average number of ordinary shares for the purpose of** diluted earnings per share | 400,701 | 380,583 |
| **Basic earnings per share (HK cents)** | 11.579 | 1.094 |
| **Diluted earnings per share (HK cents)** | 11.558 | 1.090 |

## 14. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' emoluments:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Fees | 288 | 228 |
| Salaries, allowances and other benefits | 7,143 | 5,487 |
| Discretionary bonuses | 1,500 | – |
| Retirement benefits scheme contributions | 36 | 36 |
| | 8,967 | 5,751 |

The remuneration of directors for the year ended 31 March 2007 is set out below:

| | Fees<br>HK$'000 | Salary<br>HK$'000 | Other benefits<br>HK$'000 | Discretionary bonuses<br>HK$'000 | Employer's contribution to pension scheme<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | |
| Mr. Lam Wai Ming | – | 2,630 | 357 | 1,500 | 12 | 4,499 |
| Mr. Tam Chi Sang | – | 2,340 | 344 | – | 12 | 2,696 |
| Mr. Chan Kwok Tung, Donny | – | 1,313 | 159 | – | 12 | 1,484 |
| **Independent Non-executive Directors** | | | | | | |
| Mr. Chiu Fan Wa | 96 | – | – | – | – | 96 |
| Mr. Li Chi Chung | 96 | – | – | – | – | 96 |
| Mr. Li Tat Wah | 96 | – | – | – | – | 96 |
| | 288 | 6,283 | 860 | 1,500 | 36 | 8,967 |

## 14. 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 | Salary | Other benefits | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | 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 |

Bonuses granted to directors are based on performance and subject to approval of directors' discretion.

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2006:Nil).

## 14. 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 2007 included three directors (2006: three) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2006: two) individuals during the year are summarised as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, allowances and other benefits | **2,029** | 1,681 |
| Discretionary bonuses | **246** | – |
| Retirement benefits scheme contributions | **24** | 24 |
| Share-based compensation | **–** | 600 |
| | **2,299** | 2,305 |

The emoluments fall within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2007** | 2006 |
| Emolument bands | | |
| HK$1,000,001 – HK$1,500,000 | **2** | 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 2007 (2006: Nil).

## 15. PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Leasehold land and buildings in Hong Kong *(Note (i), (iii))* HK$'000 | Leasehold buildings in the PRC *(Note (ii), (iii))* HK$'000 | Leasehold improve-ments HK$'000 | Plant and Machinery *(Note (iv))* HK$'000 | Fixtures, furniture and equipment *(Note (iv))* HK$'000 | Motor vehicles HK$'000 | Moulds HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | |
| At 1 April 2006 | 13,090 | 46,000 | 5,702 | 30,634 | 14,498 | 965 | 36,871 | 147,760 |
| Additions | – | – | 1,491 | 5,839 | 1,428 | 331 | 9,150 | 18,239 |
| Disposals | – | – | – | (1,020) | (157) | – | – | (1,177) |
| Currency realignment | – | 458 | 43 | 47 | 27 | 13 | – | 588 |
| At 31 March 2007 | 13,090 | 46,458 | 7,236 | 35,500 | 15,796 | 1,309 | 46,021 | 165,410 |
| Comprising: | | | | | | | | |
| At cost | – | – | 7,236 | 35,500 | 15,796 | 1,309 | 46,021 | 105,862 |
| At valuation | 13,090 | 46,458 | – | – | – | – | – | 59,548 |
| | 13,090 | 46,458 | 7,236 | 35,500 | 15,796 | 1,309 | 46,021 | 165,410 |
| **Accumulated depreciation and impairment** | | | | | | | | |
| At 1 April 2006 | – | – | 4,484 | 17,270 | 8,089 | 893 | 25,563 | 56,299 |
| Charge for the year | 313 | 1,116 | 663 | 3,591 | 2,474 | 131 | 5,376 | 13,664 |
| Written back on disposals | – | – | – | (617) | (135) | – | – | (752) |
| Currency realignment | – | 7 | 10 | 4 | 8 | 3 | – | 32 |
| At 31 March 2007 | 313 | 1,123 | 5,157 | 20,248 | 10,436 | 1,027 | 30,939 | 69,243 |
| **Cost** | | | | | | | | |
| At 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 | 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 |
| **Net book value** | | | | | | | | |
| At 31 March 2007 | 12,777 | 45,335 | 2,079 | 15,252 | 5,360 | 282 | 15,082 | 96,167 |
| At 31 March 2006 | 13,090 | 46,000 | 1,218 | 13,364 | 6,409 | 72 | 11,308 | 91,461 |

## 15. PROPERTY, PLANT AND EQUIPMENT (Continued)

*Notes:*

(i) The Group's interests in leasehold land and buildings are situated in Hong Kong and held under medium term leases.

(ii) The Group's interests in leasehold buildings in the PRC are held under medium term leases.

(iii) The directors' valuation at 2007 on leasehold land and buildings in Hong Kong and the leasehold building in PRC were made by reference to independent valuations at 31 March 2006 carried out by Norton Appraisal Limited on the basis of market value in existing use.

Had the properties been carried at cost less accumulated depreciation and impairment, their carrying value would have been HK$11,253,000 and HK$34,591,000 (2006: HK$11,535,000 and HK$35,464,000) respectively.

The management performed self-assessment on impairment of property, plant and equipment other than the above properties as at 31 March 2007 and concluded that no impairment has been identified.

(iv) 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 2007 | 4,659 | 1,360 | 6,019 |
| At 31 March 2006 | 369 | 706 | 1,075 |

## 16. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

| Group | HK$'000 |
|---|---|
| **Cost** | |
| At 1 April 2005 | 4,963 |
| Currency realignment | 31 |
| At 31 March 2006 | 4,994 |
| Currency realignment | 62 |
| At 31 March 2007 | 5,056 |
| **Amortisation** | |
| At 1 April 2005 | 1,675 |
| Charge for the year | 71 |
| Currency realignment | 1 |
| At 31 March 2006 | 1,747 |
| Charge for the year | 72 |
| Currency realignment | 1 |
| At 31 March 2007 | 1,820 |
| **Net Book Value** | |
| At 31 March 2007 | 3,236 |
| At 31 March 2006 | 3,247 |

The Group's payments for leasehold land held for own use under operating leases comprise:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Leasehold land situated in the PRC: | | |
| Medium-term leases | **3,236** | 3,247 |

## 17. GOODWILL

| Group | 31 March 2007 HK$'000 | 31 March 2006 HK$'000 |
|---|---|---|
| **Cost** | | |
| At 1 April and 31 March | **1,403** | 1,403 |
| **Impairment** | | |
| Balance at 1 April and 31 March | **–** | – |
| **Carrying amount** | | |
| At 31 March | **1,403** | 1,403 |

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

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 applies cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 11%. Cash flow for the first financial period is 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.

## 18. INVESTMENTS IN SUBSIDIARIES

| Company | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Unlisted shares, at cost | **58** | 58 |

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

Details of the subsidiaries as at 31 March 2007 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 Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|---|
| Asia Pilot Development Limited | Corporation | The British Virgin Islands ("BVI") | US$1 | 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 | US$1 | – | 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 | HK$8,100,000 | – | 100% | Design, manufacture and sale of electrical hair care products and other electrical appliances |
| Talent Star (China) Limited | Corporation | Hong Kong | HK$1 | – | 100% | Managerial services for group companies |

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

## 19. INVENTORIES

### Group

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Raw materials | **36,350** | 39,109 |
| Work in progress | **4,381** | 2,805 |
| Finished goods | **15,122** | 12,293 |
| | **55,853** | 54,207 |

## 20. TRADE AND BILLS RECEIVABLES

### Group

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

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Trade receivables | **62,868** | 42,640 |
| Bills receivables | **31,851** | 26,723 |
| | **94,719** | 69,363 |

The aging analysis of trade receivables is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Aged: | | |
| Within 60 days | **50,168** | 26,458 |
| 61 – 120 days | **9,625** | 8,264 |
| 121 – 365 days | **3,022** | 5,252 |
| More than 365 days | **53** | 2,666 |
| | **62,868** | 42,640 |

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

The Group transferred certain bills of exchange amounting to HK$31,466,000 (2006:HK$18,534,000) to banks with recourse in exchange for cash during the year. The transactions have been accounted for as collateralised bank advances.

## 20. TRADE AND BILLS RECEIVABLES (Continued)

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:

| | 2007<br>'000 | 2006<br>'000 |
|---|---|---|
| Renminbi | RMB 16,812 | RMB 3,879 |
| United States Dollar | USD 10,004 | USD 8,465 |

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

## 21. SUPPLEMENTAL INFORMATION TO CONSOLIDATED CASH FLOW STATEMENT

### Group

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

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Cash available on demand | 97,066 | 31,560 |
| Short-term deposits | 19,775 | 31,774 |
| | 116,841 | 63,334 |

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:

| | 2007<br>'000 | 2006<br>'000 |
|---|---|---|
| United States Dollar | USD 6,824 | USD 1,392 |
| Renminbi | RMB 3,655 | RMB 1,266 |
| Japanese Yen | JPY 37,010 | JPY 19,674 |
| Korean Won | KRW 371 | KRW 371 |

#### (b) Major non-cash transactions

During the year ended 31 March 2007, the Group acquired property, plant and equipment for approximately HK$5,703,000, which was settled through finance lease arrangements.

## 22. 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:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Aged: | | |
| Within 60 days | 47,446 | 36,888 |
| 61 – 120 days | 4,594 | 7,054 |
| 121 – 365 days | 3,049 | 1,862 |
| More than 365 days | 341 | 487 |
| | 55,430 | 46,291 |

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:

| | 2007<br>'000 | 2006<br>'000 |
|---|---|---|
| Renminbi | RMB 8,091 | RMB 4,281 |
| United States Dollar | USD 708 | USD 198 |
| Euro | EUR 112 | – |
| Japanese Yen | JPY 138 | – |

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

## 23. BORROWINGS

### Group

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Secured borrowings comprise: | | |
| Trust receipt loans | **78,539** | 57,964 |
| Bank loans | **14,607** | 22,847 |
| | **93,146** | 80,811 |

The maturity profile of the above borrowings is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Within one year | **84,779** | 69,204 |
| In the second year | **4,740** | 4,030 |
| In the third to fifth years | **3,627** | 7,577 |
| | **93,146** | 80,811 |
| Amount due within one year included in current liabilities | **(84,779)** | (69,204) |
| | **8,367** | 11,607 |

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

| | 2007<br>'000 | 2006<br>'000 |
|---|---|---|
| United States Dollar | **USD 1,658** | USD 699 |
| Euro | **EUR 21** | – |

The bank borrowings carry interest at rates ranging from 1.5% to 2% (2006: 1.5% to 2%) per annum above the one, two, three or six month(s) HIBOR (Hong Kong Inter Bank Offered Rate). The borrowings are secured by a corporate guarantee granted by the Company.

## 24. OBLIGATIONS UNDER FINANCE LEASES

### Group

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

### Finance leases

The Group leases certain of machinery and equipment under finance lease, as the rental period amounts to the estimated useful economic life of the assets concerned. The Group often has the right to purchase the assets outright at the end of the minimum lease term by paying a nominal amount.

Future lease payments are due as follows:

| | Minimum lease payments 2007 HK$'000 | Interest 2007 HK$'000 | Present value 2007 HK$'000 |
|---|---|---|---|
| Not later than one year | **2,245** | **(272)** | **1,973** |
| Later than one year and not later than five years | **3,700** | **(199)** | **3,501** |
| Later than five years | – | – | – |
| | **5,945** | **(471)** | **5,474** |

| | Minimum lease payments 2006 HK$'000 | Interest 2006 HK$'000 | Present value 2006 HK$'000 |
|---|---|---|---|
| Not later than one year | 479 | (22) | 457 |
| Later than one year and not later than five years | 158 | (3) | 155 |
| Later than five years | – | – | – |
| | 637 | (25) | 612 |

The present value of future lease payments are analysed as:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Current liabilities | **1,973** | 457 |
| Non-current liabilities | **3,501** | 155 |
| | **5,474** | 612 |

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets (note 15(iv)) and a corporate guarantee by the Company.

## 25. DEFERRED TAX LIABILITY

**Group**

| | At 1 April 2006 HK$'000 | Charge to income for the year HK$'000 | Currency realignment HK$'000 | At 31 March 2007 HK$'000 |
|---|---|---|---|---|
| Accelerated tax depreciation | 6,117 | 201 | 116 | 6,434 |
| Tax losses | (17) | 17 | – | – |
| | 6,100 | 218 | 116 | 6,434 |

| | 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 |

## 26. SHARE CAPITAL

**Company**

| | **2007 Number '000** | **2007 HK$** | 2006 Number '000 | 2006 HK$ |
|---|---|---|---|---|
| **Authorised share capital** | | | | |
| Ordinary shares of HK$0.001 each | | | | |
| At beginning of the year | **1,000,000** | **1,000,000** | 500,000 | 500,000 |
| Increase in authorised share capital *(Note (i))* | – | – | 500,000 | 500,000 |
| At end of the year | **1,000,000** | **1,000,000** | 1,000,000 | 1,000,000 |
| **Issued share capital** | | | | |
| Ordinary shares of HK$0.001 each | | | | |
| At beginning of the year | **400,000** | **400,000** | 100,000 | 100,000 |
| Allotted and issued nil-paid on 27 May 2005 *(Note (ii))* | – | – | 200,000 | – |
| New issue of shares *(Note (iii))* | – | – | 100,000 | 100,000 |
| Capitalisation of share premium account *(Note (ii))* | – | – | – | 200,000 |
| At end of the year | **400,000** | **400,000** | 400,000 | 400,000 |

*Notes:*

(i) 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.

(ii) 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.

(iii) 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 issued expenses, was credited to the share premium account of the Company.

## 26. 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 fully vested 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

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. Subsequent to 31 March 2007 and up to the date of this report, 1,000 Warrants have been converted into 500 ordinary shares and hence HK$300 cash proceeds have been raised therefrom by the Company.

## 27. SHARE-BASED PAYMENT

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

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Number of share options** | Weighted average exercise price HK$ | Number of share options |
| Outstanding at the beginning of the year | **0.1833** | **4,000,000** | – | – |
| Granted during the year | – | – | 0.1833 | 4,000,000 |
| Lapse upon non-exercise of share options | **0.1833** | **(1,200,000)** | – | – |
| Outstanding at the end of the year *(Note (i))* | **0.1833** | **2,800,000** | 0.1833 | 4,000,000 |

*Note:*

(i) The outstanding number included 600,000 share options which were lapsed subsequent to 31 March 2007 and before the date of this report. The remaining contractual life for the share options outstanding at 31 March 2007 and 31 March 2006 were 1 year and 2 years respectively.

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. 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 during the year ended 31 March 2006.

During the year ended 31 March 2007, an amount of approximately HK$300,000, in respect of the above vested options, has been reversed from the share-based compensation reserve and transferred to retained earnings as a result of lapse of non-exercise share option.

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

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.

## 27. SHARE-BASED PAYMENT (Continued)

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.

## 28. RESERVES

**Company**

| | Share premium HK$'000 | Share-based compensation reserve HK$'000 | Proposed final dividend HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 31 March 2005 | – | – | – | – | – |
| Placing and public offer of share | 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 |
| Lapse upon non-exercise of share option | – | (300) | – | 300 | – |
| Profit for the year | – | – | – | 20,712 | 20,712 |
| 2006 final dividend paid | – | – | (1,200) | – | (1,200) |
| Interim dividend paid | – | – | – | (6,000) | (6,000) |
| Proposed special dividend | – | – | 4,000 | (4,000) | – |
| Proposed final dividend | – | – | 8,000 | (8,000) | – |
| At 31 March 2007 | **36,317** | **700** | **12,000** | **1,805** | **50,822** |

## 29. 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. The management from time to time monitors their foreign exchange exposures and considers entering into foreign currency contracts in order to mitigate the foreign currency risk. As at 31 March 2007, the Group entered into certain structured financial arrangements mitigate its currency risk.

### 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, the management 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.

## 30. 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 and impairment of property, plant and equipment

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.

The impairment loss for property, plant and equipment is recognised as the amount by which the carrying amount exceeds its recoverable amount in accordance with the accounting policy stated in Note 2(f). The recoverable amounts have been determined based on fair value less costs to sell, which are based on the best available information obtained at each balance sheet date, from the disposal of the asset in an arm's length transactions between independent and willing parties, after considering the cost of disposal.

### 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.

### Net realisable value of inventories

Net realisable value of inventories represented the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices, current market conditions and the historical experience of manufacturing and selling products of a similar nature. The management of the Group reviews the assessment at each balance sheet date.

### Impairment on goodwill

The management of 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 2007 was HK$1,403,000 (2006: HK$1,403,000). More details are given in note 17.

## 31. BANKING FACILITIES

As at 31 March 2007, the Group's banking facilities of approximately HK$211,000,000 (2006: HK$164,000,000) were secured by the corporate guarantee by the Company and the leased assets under finance leases.

## 32. 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$496,000 (2006: HK$467,000).

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.

## 33. 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 judgement 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$211,000,000 (2006: HK$164,000,000) with respect to banking facilities made available to its subsidiaries. As at 31 March 2007, the borrowings outstanding against the facilities amounted to approximately HK$130,288,000 (2006: HK$81,423,000).

In the opinion of the directors, no material liabilities will arise from the above corporate guarantee in the ordinary course of the business and the fair value of the guarantee granted by the Company is immaterial.

## 34. CAPITAL COMMITMENTS

### Group

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Commitments for acquisition of plant and equipment:** | | |
| Contracted for but not provided in the financial statements | 12,184 | 4,826 |

## 35. LEASE ARRANGEMENTS

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:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Not later than one year | 1,007 | 1,073 |
| Later than one year and not later than five years | 3,057 | 3,928 |
| | 4,064 | 5,001 |

## 36. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out in notes 18 and 27 above, the Group has the following material related party transactions during the year:

Key management compensation is as follows:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| **Key management compensation:** | | |
| Basic salaries | 10,610 | 8,744 |
| Discretionary bonus | 2,033 | – |
| Contributions to defined contribution plan | 96 | 96 |
| Share-based compensation | – | 1,000 |
| | 12,739 | 9,840 |

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.

## 37. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 March 2007 to be Beaute Inc., a company incorporated in the British Virgin Islands.

## 38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 20 July 2007.

# Five Years Financial Summary

## CONSOLIDATED INCOME STATEMENTS

| | Year ended 31st March, | | | | |
|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | **2007** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **Turnover** | 284,882 | 301,634 | 464,910 | 403,551 | **537,273** |
| Cost of sales | (215,111) | (232,979) | (370,729) | (356,874) | **(436,406)** |
| Gross profit | 69,771 | 68,655 | 94,181 | 46,677 | **100,867** |
| Other income and gains | 4,820 | 6,790 | 12,215 | 8,588 | **8,086** |
| Impairment loss on land and buildings | – | (583) | – | – | **–** |
| Loss on disposals of property, plant and equipment | (3,473) | – | – | – | **(157)** |
| Distribution costs | (9,438) | (8,356) | (8,020) | (8,309) | **(7,162)** |
| Administrative expenses | (26,330) | (27,890) | (31,704) | (36,480) | **(43,211)** |
| Profit from operations | 35,350 | 38,616 | 66,672 | 10,476 | **58,423** |
| Finance costs | (5,054) | (3,495) | (3,912) | (5,728) | **(7,915)** |
| 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 | (802) | (11) | – | – | **–** |
| Profit before income tax expense | 48,768 | 35,132 | 62,760 | 4,748 | **50,508** |
| Income tax expense | 364 | (4,056) | (5,357) | (601) | **(4,193)** |
| Net profit attributable to equity holders of the Company | 49,132 | 31,076 | 57,403 | 4,147 | **46,315** |
| Dividends | 2,828 | 80,000 | 40,000 | 5,200 | **18,000** |
| Basic earnings per share (cents) | 16.38 | 10.36 | 19.13 | 1.094 | **11.579** |
| Diluted earnings per share (cents) | N/A | N/A | N/A | 1.090 | **11.558** |

## CONSOLIDATED BALANCE SHEETS

| | 31st March, 2003 HK$'000 (Restated) | 2004 HK$'000 (Restated) | 2005 HK$'000 (Restated) | 2006 HK$'000 | **2007 HK$'000** |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Property, plant and equipment | 81,161 | 75,737 | 78,295 | 91,461 | **96,167** |
| Payments for leasehold land held for own use under operating leases | 2,489 | 1,790 | 3,288 | 3,247 | **3,236** |
| Interests in associates | 563 | – | – | – | **–** |
| Goodwill | – | – | 1,403 | 1,403 | **1,403** |
| Total non-current assets | 84,213 | 77,527 | 82,986 | 96,111 | **100,806** |
| **Current assets** | | | | | |
| Inventories | 41,755 | 50,867 | 60,881 | 54,207 | **55,853** |
| Trade and bills receivable | 18,628 | 26,709 | 46,880 | 69,363 | **94,719** |
| Deposits, prepayments and other receivables | 2,755 | 4,225 | 12,617 | 8,479 | **7,940** |
| Amounts due from directors | 39,001 | – | – | – | **–** |
| Amounts due from related companies | 17,770 | 10,338 | – | – | **–** |
| Tax recoverable | – | – | – | 1,866 | **–** |
| Pledged bank deposit | 6,084 | 6,043 | 6,051 | – | **–** |
| Cash and cash equivalents | 23,176 | 30,020 | 77,176 | 63,334 | **116,841** |
| Total current assets | 149,169 | 128,202 | 203,605 | 197,249 | **275,353** |
| **Current liabilities** | | | | | |
| Trade and bills payable | 34,941 | 38,001 | 55,298 | 46,291 | **55,430** |
| Accruals and other payables | 7,647 | 12,133 | 15,620 | 15,461 | **15,690** |
| Dividends payable | 2,828 | 17,429 | 32,489 | – | **–** |
| Amount due to a related company | – | 943 | – | – | **–** |
| Borrowings-due within one year | 51,965 | 61,843 | 90,004 | 69,204 | **84,779** |
| Bank overdrafts, secured | 1,736 | – | – | – | **–** |
| Bank advances for discounted bills | – | – | – | 18,534 | **31,466** |
| Obligations under finance leases – due within one year | 1,959 | 2,387 | 1,014 | 457 | **1,973** |
| Tax payable | 2,047 | 317 | 2,506 | 48 | **3,583** |
| Total current liabilities | 103,123 | 133,053 | 196,931 | 149,995 | **192,921** |
| **Net current assets/(liabilities)** | 46,046 | (4,851) | 6,674 | 47,254 | **82,432** |
| **Total assets less current liabilities** | 130,259 | 72,676 | 89,660 | 143,365 | **183,238** |
| **Non-current liabilities** | | | | | |
| Borrowings – due after one year | 15,895 | 7,841 | 7,622 | 11,607 | **8,367** |
| Obligations under finance leases – due after one year | 2,291 | 930 | 599 | 155 | **3,501** |
| Deferred tax liabilities | 1,978 | 2,734 | 2,823 | 6,100 | **6,434** |
| **Net assets** | 110,095 | 61,171 | 78,616 | 125,503 | **164,936** |
| **Capital and reserves** | | | | | |
| Share capital | 58 | 58 | 100 | 400 | **400** |
| Reserves | 110,037 | 61,113 | 78,516 | 125,103 | **164,536** |
| Equity attributable to equity holders of the Company | 110,095 | 61,171 | 78,616 | 125,503 | **164,936** |

*Note:*

Pursuant to the adoption of all applicable HKFRSs in 2006, certain figures have been restated as explained in note 2(c) to the 2006 annual report.