NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

1. REORGANISATION AND BASIS OF PRESENTATION

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.

Pursuant to the transfer of Asia Pilot Development Limited ("Asia Pilot") and its subsidiaries, namely Kenford Industrial Company Limited ("Kenford HK") and Sky Ocean Group Limited ("Sky Ocean") into the Company through an exchange of shares (the "Exchange of Shares") which was completed on 23 March 2005, as detailed in the prospectus of the Company dated 31 May 2005 ("Prospectus"), the Company became the holding company of these companies.

The Exchange of Shares is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for Group Reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements of the Group for the year ended 31 March 2005, including comparative figures, are prepared as if the Company had been the holding company of the above companies for the years ended 31 March 2005 and 2004.

Immediate after the Exchange of Shares, on the same date, the Company entered into further transactions (the "Further Acquisition") to complete its reorganisation on 23 March 2005 in preparation for the listing of the shares of the Company. These transactions comprise primarily acquisitions of interests in Kario Company Limited ("Kario HK") and its subsidiary, Dongguan Kario Electrical Appliance Company Limited ("DG Kario"), (collectively the "Kario Group") as set out in the Prospectus. The results of the Kario Group are accounted for using the acquisition method of accounting.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 June 2005 (the "Listing Date").

The financial statements have been prepared under the historical cost conventions basis in accordance with accounting principles generally accepted in Hong Kong, and comply with accounting standards issued by the HKICPA.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business Combinations". The Group has not early adopted these new HKFRSs in the consolidated financial statements for the year ended 31 March 2005. HKFRS 3 is applicable to business combinations for which the agreement date is on or after 1 January 2005. Accordingly, the Group adopted HKFRS 3 together with HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" for the acquisition of the Kario Group for which the agreement date is after 1 January 2005. Under HKFRS 3, goodwill is initially recognised as an asset at cost and review for impairment annually. During the year, no impairment loss for the goodwill was recognised in the consolidated financial statements. The Group has already commenced an initial assessment of the impact of other new HKFRSs and considered that the adoption of these new HKFRSs would not have a significant impact on its results of operations and financial positions for the year ended 31 March 2005.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in the preparation of the consolidated financial statements are set out below.

a. 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.

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets.

b. Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition.

Goodwill is initially recognised as an asset at cost and review for impairment annually, or more frequently when there is an indication that it may be impaired.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

c. 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.

Commissions 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.

d. Income taxes

Income taxes for the period 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.

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

2. PRINCIPAL ACCOUNTING POLICIES (continued)

e. Property, plant and equipment

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

When property, plant and equipment are sold or retired, their cost, accumulated depreciation and impairment losses eliminated and any gain or loss resulting from their disposal is included in the income statement.

Depreciation is provided to write off the property, plant and equipment over their estimated useful lives on a straight-line basis, at the following annual rates:

Leasehold land in Hong Kong	Over the unexpired term of the lease
Buildings in Hong Kong	2.5%
Land and buildings in the PRC	2% to 5%
Leasehold improvements	20%
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Motor vehicles	20%
Moulds	20%

f. Borrowing costs

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

g. Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost which comprises direct materials, and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated on the first-in-first-out method.

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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

h. Impairment

The carrying amounts of the Group's tangible and intangible assets are reviewed annually at each balance sheet date to determine whether they have been impaired during the year. Where an asset has been impaired, the recoverable amount of the asset (or cash generating unit where applicable) is determined. Where the carrying amount exceeds the recoverable amount, the asset is written down to its recoverable amount. The resultant impairment loss is recognised as an expense in the income statement unless the asset is carried at revalued amounts and the revaluation surplus is recognised in equity in which case the impairment is recognised directly against the revaluation surplus to the extent the impairment loss does not exceed the surplus.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the reversed estimate of its recoverable amount, to the extent 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, in which case the reversal of the impairment loss is treated as a revaluation increase.

i. Cash and cash equivalents

Cash and cash equivalents are carried in the consolidated balance sheet at cost. For the purposes of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

j. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at amounts equal to the lower of their fair value and present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease.

Lease payments under operating leases are expensed on a straight-line basis over the accounting periods covered by the lease terms.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

k. 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.

l. Employee benefits

(i) Defined contribution retirement plan

Obligations for contributions to the statutorily required Mandatory Provident Fund, a defined contribution retirement plan, are recognised as an expense in the income statement as incurred.

(ii) Employment Ordinance long term service payment

Certain of the Group's Hong Kong based employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance. A provision has not been recognised in respect of such possible payments as it is not considered probable that the termination will result in a material future outflow of resources from the Group.

(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 leave due on retirement or termination are recognised when they accrue to the employees.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

m. 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 the time value of money is material, provisions are stated at present value of the expenditure expected to settle the obligation.

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.

n. Foreign currencies

Foreign currency transactions during the period are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the market rates of exchange ruling at that date. All exchange differences are dealt with in the income statement.

o. Dividends

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

Final dividends proposed and declared by the directors after the balance sheet date 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.

p. Related parties

Parties are considered to be related if the Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

q. Segment reporting

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

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.

In accordance with the Group's internal financial reporting practice, the Group has determined that the business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

3. 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.

4. OTHER REVENUE

	2005	2004
	HK$'000	HK$'000
Reimbursement of mould costs	**7,734**	2,291
Commission income	**2,861**	3,784
Gain on disposal of property, plant and equipment	**–**	146
Interest income	**117**	187
Sample sales	**101**	24
Sundry income	**1,402**	358
	12,215	6,790

5. SEGMENT INFORMATION

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

(a) Business segments

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

(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:

	2005	2004
	HK$'000	HK$'000
Europe	**341,257**	220,507
North and South America	**35,426**	26,506
Asia	**30,667**	28,628
Australia	**48,064**	19,625
Africa	**9,496**	6,368
	464,910	301,634

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

	Segment assets	
	2005	2004
	HK$'000	HK$'000
Hong Kong	**142,008**	85,462
PRC (excluding Hong Kong)	**143,180**	120,267
	285,188	205,729
Goodwill	**1,403**	–
	286,591	205,729

5. SEGMENT INFORMATION (continued)

(b) Geographical segments (continued)

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

	Capital expenditure	
	2005	2004
	HK$'000	HK$'000
Hong Kong	**289**	242
PRC (excluding Hong Kong)	**12,293**	5,939
	12,582	6,181

6. PROFIT FROM OPERATIONS

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

	2005	2004
	HK$'000	HK$'000
Auditors' remuneration	**300**	161
Cost of inventories sold	**370,729**	232,979
Depreciation		
– Owned	**10,326**	9,730
– Held under finance leases	**1,829**	1,991
Exchange losses, net	**1,521**	1,147
Staff costs (including directors' emoluments and retirement benefits scheme contributions)		
– Basic salaries, bonuses, allowances and benefits in kind	**50,569**	40,839
Less: Amount paid under PRC sub-processing agreements	**(32,616)**	(24,597)
	17,953	16,242
Retirement benefits scheme contributions	**448**	386
Research and development costs *(note (i))*	**4,532**	4,373
Provision for/(reversal of) obsolete inventories	**(104)**	199

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.

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments paid and payable to directors of the Company are as follows:

	2005 HK$'000	2004 HK$'000
Fees	–	–
Salaries, allowance and benefits in kind	3,705	3,456
Discretionary bonus	195	–
Retirement benefits scheme contributions	36	34
	3,936	3,490

Analysis of emoluments of directors by number of individuals and emolument range is as follows:

	2005 Number	2004 Number
Nil to HK$1,000,000	–	1
HK$1,000,001 to HK$1,500,000	3	2
	3	3

Emoluments of the directors are as follows:

	2005 HK$'000	2004 HK$'000
Director A	1,442	1,442
Director B	1,442	1,442
Director C	1,052	606
	3,936	3,490

There were no arrangements under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

All of the independent non-executive directors received no emoluments from the Group during the year (2004: Nil).

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year are as follows:

	2005	2004
	HK$'000	HK$'000
Directors	**3,936**	3,490
Non-directors	**2,110**	1,650
	6,046	5,140

Details of the emoluments of non-directors mentioned above are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,705**	1,626
Discretionary bonus	**381**	–
Retirement benefits scheme contributions	**24**	24
	2,110	1,650

Analysis of emoluments of non-directors by number of individuals and emolument range is as follows:

	2005	2004
	Number	Number
Nil to HK$1,000,000	**2**	2

No emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of offices (2004: Nil).

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on bank loans and overdrafts *(note (i))*	**1,051**	1,318
Interest on trust receipt loans	**2,781**	2,018
Interest on finance leases	**80**	159
	3,912	3,495

Note:

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

9. TAXATION

The amount of taxation in the consolidated income statement represents:

	2005 HK$'000	2004 HK$'000
Current profits tax – Hong Kong		
– Tax for the year	**5,268**	3,377
– Overprovision in respect of prior years	**–**	(77)
	5,268	3,300
Deferred tax *(Note 23)*		
– Current year	**234**	(169)
– (Over)/under provision in prior years	**(145)**	925
	89	756
Tax charge for the year	**5,357**	4,056

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 has been provided for at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits less allowable losses brought forward.

9. TAXATION (continued)

Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), DG Kario, a wholly owned subsidiary acquired by the Group on 23 March 2005, being a foreign investment enterprise, is subject to income tax rate of 24%. DG Kario is also exempted from enterprise income tax for two years starting from the first year of profitable operations in 2003 after off-setting prior year tax losses, followed by a 50% reduction in the applicable tax rate for the next three years. No provision for PRC enterprise income tax has been made in the consolidated income statement for the year ended 31 March 2005.

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

	2005 HK$'000	2004 HK$'000
Profit before taxation	**62,760**	35,132
Applicable Hong Kong profits tax rate	**17.5%**	17.5%
Tax charge at applicable Hong Kong profits tax rate	**10,983**	6,148
Tax effect of income that is not taxable in determining taxable profits *(note (i))*	**(5,543)**	(3,268)
Tax effect of expenditure that is not deductible in determining taxable profits	**62**	199
Overprovision of profits tax in respect of prior years	**–**	51
(Over)/under provision of deferred tax liability in prior years	**(145)**	925
Others	**–**	1
	5,357	4,056

Note:

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

10. DIVIDENDS

The dividends declared and paid during the years ended 31 March 2005 and 2004 represent dividends declared by a subsidiary of the Group to its then shareholders before the Reorganisation.

	2005	2004
	HK$'000	HK$'000
Interim dividends	**–**	80,000
Special dividends	**40,000**	–
	40,000	80,000

The rate of the dividends and the number of shares ranking for the dividends are not presented as such information, in the opinion of directors, is not meaningful for the purpose of the financial statements.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK$57,403,000 (2004: HK$31,076,000).

The number of shares used to calculate the basic earning per share is based on 300,000,000 ordinary shares comprising 100,000,000 ordinary shares in issue during the year and the capitalization issue of 200,000,000 ordinary shares of the Company, which were deemed to be issued since 1 April 2003.

No diluted earnings per share is presented as no diluting event existed during the year (2004: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings in Hong Kong *(note (i),(iii))* HK$'000	Land and buildings in the PRC *(note (ii),(iii))* HK$'000	Leasehold improve-ments HK$'000	Plant and Machinery HK$'000	Fixtures, furniture and equipment HK$'000	Motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
Cost								
At 1 April 2003	15,938	43,284	3,990	34,138	6,151	2,320	32,480	138,301
Additions	–	–	190	1,329	1,083	–	3,579	6,181
Disposals	–	–	–	(756)	(337)	–	(2,878)	(3,971)
At 31 March 2004	15,938	43,284	4,180	34,711	6,897	2,320	33,181	140,511
Additions	–	–	478	1,637	5,369	–	5,098	12,582
Acquisition of subsidiaries	–	2,480	9	905	177	58	–	3,629
Disposals	–	–	–	(4,978)	(504)	–	(3,305)	(8,787)
At 31 March 2005	**15,938**	**45,764**	**4,667**	**32,275**	**11,939**	**2,378**	**34,974**	**147,935**
Accumulated depreciation and impairment								
At 1 April 2003	3,418	3,579	2,196	15,717	3,641	1,883	24,217	54,651
Charge for the year	352	1,002	836	3,471	1,193	181	4,686	11,721
Impairment loss	–	583	–	–	–	–	–	583
Written back on disposals	–	–	–	(756)	(337)	–	(2,878)	(3,971)
At 31 March 2004	3,770	5,164	3,032	18,432	4,497	2,064	26,025	62,984
Charge for the year	352	930	931	3,137	2,115	181	4,509	12,155
Written back on disposals	–	–	–	(4,978)	(504)	–	(3,305)	(8,787)
At 31 March 2005	**4,122**	**6,094**	**3,963**	**16,591**	**6,108**	**2,245**	**27,229**	**66,352**
Net book value								
At 31 March 2005	**11,816**	**39,670**	**704**	**15,684**	**5,831**	**133**	**7,745**	**81,583**
At 31 March 2004	12,168	38,120	1,148	16,279	2,400	256	7,156	77,527

12. 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. Leasehold land and buildings were pledged as part of collateral for banking facilities granted to the Group (note 26).

(ii) Land and buildings in the PRC represent lump sum lease payments for the use of two parcels of collectively-owned land and the construction costs and incidental costs incurred by the Group in erecting buildings on these parcels of land.

In March 1992, the Group had signed a factory investment agreement with Baoan County Xinan Town Fenghuang Gang Economic Development Company for the lease of the collectively-owned land and construction of the factory premises in Shenzhen. Such agreement lasts for a period of 20 years and will expire in 2012.

In March 1995, the Group had signed a land use right agreement with Dongguan City, Changping Town, Xiakeng Economic Corporation Commune for the lease of the collectively-owned land in Dongguan. Such agreement lasts for a period of 50 years and will expire in 2045. The construction of the DG Kenford factory commenced in 1997 on this piece of collectively-owned land in Dongguan.

Following the complete relocation of production facilities from the Shenzhen processing factory to the DG Kenford factory, the Group terminated its processing arrangement under the Shenzhen Processing Agreement in April 2003. The land and buildings in Shenzhen and their respective carrying value of approximately HK$583,000 at the time of the termination were fully impaired in the financial year 2004.

In respect of the land and buildings in Dongguan, in November 2003, the Group nominated DG Kario, to submit an application for the State-owned land use right and the ownership of the building constructed thereon. DG Kario acquired the State-owned land use right certificate in May 2004, and thereafter in December 2004, DG Kario further acquired the legal title to the buildings constructed thereon.

(iii) For the preparation of the Company's listing, leasehold land and buildings in Hong Kong and land and buildings in the PRC included in property, plant and equipment of the Group were revalued on 28 February 2005, on the basis of their open market value in existing use, by B. I. Appraisals Limited, an independent firm of property valuer. The net revaluation surplus of approximately HK$9,700,000 has not been recorded in the Group's consolidated financial statements as the Group accounts for its property interests at cost less impairment and depreciation.

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

	Plant and Machinery	Fixtures, furniture and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 March 2005	**5,783**	**1,135**	**–**	**6,918**
At 31 March 2004	7,048	686	143	7,877

13. GOODWILL

Group

	HK$'000
Cost	
At 1 April 2004	–
Arising on acquisition of subsidiaries	1,403
At 31 March 2005	1,403
Impairment	
Impairment loss recognised in the year ended 31 March 2005 and balance at 31 March 2005	–
Carrying amount	
At 31 March 2005	**1,403**
At 31 March 2004	–

The amount of the goodwill capitalised as an asset during the year is arising from the acquisition of interests in subsidiaries, which was completed on 23 March 2005.

14. INVESTMENTS IN SUBSIDIARIES

Company

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**58**	–

The amount due to a subsidiary is unsecured, interest free and has no fixed terms of repayment.

Details of the subsidiaries are as follows:

Name of company	**Place of incorporation/ registration and operation**	**Percentage of ownership interest attributable to the Company**		**Principal activities**
		Directly	**Indirectly**	
Asia Pilot	The British Virgin Islands ("BVI")	100%		Investment holding
Kenford HK	Hong Kong		100%	Design, manufacture and sale of electrical hair care products, electrical health care products and other small household electrical appliances
Sky Ocean	BVI		100%	Investment holding
Kario HK	Hong Kong		100%	Investment holding and trading
DG Kario	The People's Republic of China		100%	Design, manufacture and sale of electrical hair care products and other electrical appliances

15. INVENTORIES

Group

	2005 HK$'000	2004 HK$'000
Raw materials	**44,721**	34,426
Work in progress	**4,204**	3,466
Finished goods	**14,578**	15,701
	63,503	53,593
Provision for obsolescence	**(2,622)**	(2,726)
	60,881	50,867

Included in raw materials are inventories of approximately HK$2,666,000 (2004: HK$2,188,000), stated net of a provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

Included in finished goods are inventories of approximately HK$859,000 (2004: HK$19,000), stated net of a provision, made in order to state these inventories at the lower of their cost and estimated net realisable value.

16. ACCOUNTS AND BILLS RECEIVABLE

Group

	2005 HK$'000	2004 HK$'000
Accounts receivable	**38,386**	20,743
Bills receivable	**8,494**	5,966
	46,880	26,709

16. ACCOUNTS AND BILLS RECEIVABLE (continued)

Group (continued)

In general, the credit terms granted by the Group ranged from 14 to 90 days. The aging analysis of accounts receivable is as follows:

	2005 HK$'000	2004 HK$'000
Aged:		
Within 60 days	**27,456**	17,291
61 – 120 days	**7,045**	1,732
121 – 365 days	**2,947**	719
More than 365 days	**938**	1,001
	38,386	20,743

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

17. AMOUNT DUE FROM A RELATED COMPANY

Group

Particulars of loans to company controlled by directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	2005 HK$'000	Maximum amount outstanding during the year HK$'000	2004 HK$'000
Kario HK	–	10,338	10,338

The amount due from Kario HK as at 31 March 2004 represents commission receivables and non-trade fund advances. These amounts are unsecured, interest-free and with no fixed repayment terms. Following the acquisition of equity interest in Kario HK by the Group on 23 March 2005, Kario HK became a wholly-owned subsidiary of the Group. Accordingly, the amount due from Kario HK as at 31 March 2005 was eliminated at the consolidation level.

18. SUPPLEMENTAL INFORMATION TO CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries:

	2005 **HK$'000**	2004 HK$'000
Property, plant and equipment	**3,629**	–
Inventories	**1,255**	–
Trade receivables	**5,139**	–
Deposit, prepayments and other receivables	**1,285**	–
Cash and bank balances	**4,623**	–
Other payables and accrued expenses	**(1,720)**	–
Trade payables	**(3,971)**	–
Amounts due to related companies	**(11,009)**	–
Taxation payable	**(615)**	–
	(1,384)	–
Goodwill	**1,403**	–
Total consideration *(note)*	**19**	–
Satisfied by:		
Cash	**5**	–
Shares of the Company	**14**	–
	19	–

Note: The sales consideration was agreed at a nominal consideration of HK$19,200.

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2005 **HK$'000**	2004 HK$'000
Cash consideration	**(5)**	–
Cash and bank balance acquired	**4,623**	–
Net cash inflow in respect of the acquisition of subsidiaries	**4,618**	–

18. SUPPLEMENTAL INFORMATION TO CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	2005	2004
	HK$'000	HK$'000
Cash and bank balances	**77,176**	30,020

(c) Major non-cash transactions

During the years ended 31 March 2005 and 31 March 2004, the Group acquired property, plant and equipment for approximately HK$880,000 and HK$351,000 respectively, which were settled through finance lease agreements.

During the year ended 31 March 2004, an interim dividend of HK$8,000 per share, totaling HK$80,000,000 was declared by Kenford HK. Out of the HK$80,000,000 declared dividend, approximately HK$62,571,000 was offset against balance due from the directors, who are also shareholders of the Company. The remaining balance of approximately HK$17,429,000 was outstanding as at 31 March 2004. During the year ended 31 March 2005, a special dividend of HK$4,000 per share, totaling HK$40,000,000 was declared by Kenford HK, which has caused the total dividend payable to increase to approximately HK$57,429,000 of which approximately HK$24,940,000 was offset against balance due from directors resulted from non-trade advances to directors during the year. The balance of approximately HK$32,489,000 was outstanding as at 31 March 2005.

19. ACCOUNTS AND BILLS PAYABLE

Group

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

	2005	2004
	HK$'000	HK$'000
Aged:		
Within 60 days	**39,021**	25,664
61 – 120 days	**10,260**	8,550
121 – 365 days	**5,738**	3,423
More than 365 days	**279**	364
	55,298	38,001

The maturity of bills payable is generally within one month.

20. AMOUNT DUE TO A RELATED COMPANY

Group

	2005 **HK$'000**	2004 HK$'000
DG Kario	–	943

The amount due to DG Kario as at 31 March 2004 represents mainly expense reimbursement to DG Kario. This amount is unsecured, interest-free and with no fixed repayment terms. Following the acquisition of equity interest in DG Kario by the Group, DG Kario became a wholly-owned subsidiary of the Group. Accordingly, the amount due to DG Kario as at 31 March 2005 was eliminated at the consolidation level.

21. BORROWINGS

Group

	2005 **HK$'000**	2004 HK$'000
Secured borrowings comprise:		
Trust receipt loans	**71,629**	46,816
Bank loans, secured	**25,997**	22,868
	97,626	69,684

The maturity profile of the above borrowings is as follows:

	2005 **HK$'000**	2004 HK$'000
Within one year	**90,004**	61,843
In the second year	**4,062**	5,620
In the third to fifth years, inclusive	**3,560**	2,221
	97,626	69,684
Amount due within one year included in current liabilities	**(90,004)**	(61,843)
	7,622	7,841

The bank loans are secured by the properties of Kenford HK, personal guarantees executed by the directors of the Company Mr. Lam Wai Ming and Mr. Tam Chi Sing and a pledge of bank deposits. Subsequent to the balance sheet date, the personal guarantees provided by the directors were released and replaced by a corporate guarantee of the Company.

22. OBLIGATIONS UNDER FINANCE LEASES

Group

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

	31 March 2004 Present value of the minimum lease payments HK$	Interest expense relating to future periods HK$	Total minimum lease payments HK$
Within one year	2,387	107	2,494
In the second year	741	157	898
In the third to fifth years, inclusive	189	11	200
	3,317	275	3,592
Amount due within one year included in current liabilities	(2,387)	(107)	(2,494)
	930	168	1,098

	31 March 2005 Present value of the minimum lease payments HK$	**Interest expense relating to future periods HK$**	**Total minimum lease payments HK$**
Within one year	**1,014**	**31**	**1,045**
In the second year	**448**	**27**	**475**
In the third to fifth years, inclusive	**151**	**7**	**158**
	1,613	**65**	**1,678**
Amount due within one year included in current liabilities	**(1,014)**	**(31)**	**(1,045)**
	599	**34**	**633**

The above leasing obligations are secured by the followings:

(a) Leased assets of Kenford HK (note 12); and

(b) Joint and several guarantees provided by directors of the Company, Mr. Lam Wai Ming and Mr. Tam Chi Sang for an amount of not less than HK$8,000,000.

Subsequent to the balance sheet date, the personal guarantees provided by the directors were released and replaced by a corporate guarantee of the Company.

23. DEFERRED TAX

Group

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movement are as follows:

	Accelerated depreciation allowances
	HK$'000
At 1 April 2003	1,978
Charge to income statement	756
At 31 March 2004	2,734
At 1 April 2004	2,734
Charge to income statement	89
At 31 March 2005	**2,823**

Deferred tax assets and liabilities are netted when the taxes relate to the same taxation authority and where offsetting is allowed.

24. SHARE CAPITAL

Movements of the Company's shares during the period from 10 November 2004 (date of incorporation) to 31 March 2005 and up to the Listing Date are as follows:

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

24. SHARE CAPITAL (continued)

Issued share capital	*Notes*	Number of ordinary share of HK$0.001 each	Nominal value
			HK$
Allotted and issued nil-paid upon incorporation	*(ii),(iii)*	1	–
Allotted and issued nil-paid on 19 November 2004	*(ii),(iii)*	1	–
Issue of shares upon the Exchange of Shares	*(iii)*	58,399,998	58,400
Issue of shares for acquisition of subsidiaries	*(iv)*	14,400,000	14,400
Issue of new shares on 23 March 2005	*(v)*	27,200,000	27,200
At 31 March 2005		100,000,000	100,000
Allotted and issued nil-paid on 27 May 2005	*(vii)*	200,000,000	–
New issue of shares	*(vii)*	100,000,000	100,000
Capitalisation of share premium account	*(vii)*	–	200,000
At Listing Date		400,000,000	400,000

Notes:

(i) The Company was incorporated in the Cayman Islands on 10 November 2004 with an authorised share capital of HK$500,000 divided into 500,000,000 shares of HK$0.001 each.

(ii) Upon incorporation, one new share of HK$0.001 was allotted and issued nil-paid. On 19 November 2004, one new share of HK$0.001 was allotted and issued nil-paid.

(iii) On 23 March 2005, the Company issued an aggregate of 58,399,998 shares, credited as fully paid up for the Exchange of Shares as set out in Note 1. In addition, the Company credited as fully paid at par the 2 nil-paid shares.

(iv) Pursuant to the Further Acquisitions as set out in Note 1, effective on 23 March 2005, the Company acquired certain subsidiaries in consideration of cash payments and issue of an aggregate of 14,400,000 shares upon completion of the acquisition on 23 March 2005.

(v) On 23 March 2005, an aggregate of 27,200,000 shares of HK$0.001 each were issued at par for cash.

(vi) On 29 April 2005, written resolutions of all the Shareholders were passed pursuant to which the authorised share capital of the Company was increased from HK$500,000 to HK$1,000,000 by the creation of an additional 500,000,000 Shares.

(vii) Pursuant to a resolution of all the Shareholders passed on 27 May 2005, 200,000,000 shares of the Company were allotted and issued, credited as fully paid at par value of HK$0.001 each to the then existing shareholders whose names appear on the register of members of the Company at the close of business on 29 April 2005 in proportion to their respective shareholding by the capitalization of HK$200,000 from the share premium account. Such allotment and capitalization were conditional on the share premium account being credited as a result of the new shares issued in connection with the listing of the Company's shares on the Stock Exchange.

(viii) On the Listing Date, 100,000,000 shares (with Warrants) of the Company were issued to the Public at a premium of HK$0.549 for cash totalling HK$54,900,000. The excess of the issued price over the par value of the shares, net of share issue expenses, was credited to the share premium account of the Company.

24. SHARE CAPITAL (continued)

Share options

Subsequent to 31 March 2005, on 27 May 2005, the Company adopted a share option scheme ("Share Option Scheme") and a pre-IPO share option scheme ("Pre-IPO Share Option Scheme").

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

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

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

Warrants

Subsequent to 31 March 2005, a total of 100,000,000 warrants were issued by way of bonus issue to all shareholders whose name appeared on the register of members of the Company as at completion of the Share Offer and the Capitalisation Issue (as defined in the Prospectus) in proportion of one warrant for every four shares, in unit(s) of HK$0.30 of the subscription rights to the warrant holders. The subscription price of the warrants is HK$0.60 per share with a subscription period from 16 June 2005 to 13 June 2008. As at the date of this report, no subscription rights to the warrants is exercised.

25. RESERVES

Group

	Merger reserve *(note (i))* HK$'000	**Retained profits** HK$'000	**Total** HK$'000
At 1 April 2003	942	109,095	110,037
Net profit attributable to shareholders	–	31,076	31,076
Interim dividends	–	(80,000)	(80,000)
At 31 March and 1 April 2004	942	60,171	61,113
Net profit attributable to shareholders	–	57,403	57,403
Special dividends	–	(40,000)	(40,000)
At 31 March 2005	**942**	**77,574**	**78,516**

25. RESERVES (continued)

Note:

(i) The merger reserve of the Group represents the difference between the nominal value of share capital of subsidiaries acquired pursuant to the Exchange of Shares and the nominal value of the share capital of the Company issued in exchange thereof.

As stipulated by the Rules for the Implementation of the Law of the People's Republic of China on Foreign Capital Enterprises, DG Kario, a wholly owned subsidiary acquired by the Group on 23 March 2005, is required to make appropriation of 10% of its profit after taxation each year as recorded in the PRC statutory accounts to the statutory reserve fund until the fund balance reaches 50% of its registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, for making up losses and capitalization into capital.

Company

The Company has no distributable reserve available to shareholders as at 31 March 2005.

26. BANKING FACILITIES

As at 31 March 2005, the Group's banking facilities of approximately HK$194,000,000 were secured by the followings:

a. Fixed deposits placed with banks amounting to approximately HK$6,000,000;

b. Personal guarantee given by directors of the Company, Mr. Lam Wai Ming and Mr. Tam Chi Sang; and

c. Leasehold land and buildings of the Group and related companies, namely V.Link Development Limited and Lightwin Resources Limited.

Subsequent to the balance sheet date, the personal guarantees provided by the directors and the leasehold land and buildings of related companies as mentioned in (b) and (c) above were released and replaced by a corporate guarantee of the Company.

27. 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.

27. RETIREMENT BENEFITS (continued)

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 organized 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$448,000 (2004: HK$386,000).

28. CONTINGENT LIABILITIES

(i) As at 31 March 2005, the Group had contingent liabilities in respect of bills discounted to banks amounting to approximately HK$14,300,000 (2004: HK$9,500,000).

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

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

According to the legal counsel'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 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.

29. CAPITAL COMMITMENTS

	2005 **HK$'000**	2004 HK$'000
Commitment for acquisition of plant and equipment:		
Contracted for but not provided in the financial statements	**3,664**	2,682

30. LEASE ARRANGEMENTS

The Group paid operating lease rentals in respect of land and buildings as follows:

	2005	2004
	HK$'000	HK$'000
Minimum lease payments	**42**	17

The Group has future minimum lease payments under non-cancellable operating leases which are due for payment as follows:

	2005	2004
	HK$'000	HK$'000
Within one year	**61**	12
In the second to fifth years inclusive	**–**	–
	61	12

31. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out in notes 17, 18, 20 and 26 above, the Group has the following material related party transactions during the year:

	Notes	**2005** **HK$'000**	2004 HK$'000
Sales to:			
Unix Electronics (HK) Company Limited ("Unix HK")	*(i)*	**–**	3,055
Kario HK	*(i)*	**50**	–
		50	3,055
Purchases from:			
Kario HK	*(i)*	**7,411**	540

31. RELATED PARTY TRANSACTIONS (continued)

	Notes	2005 HK$'000	2004 HK$'000
Commissions received from:			
Unix HK	*(ii)*	–	80
DG Kario	*(ii)*	**2,861**	3,703
		2,861	3,783
Reimbursement of expenses:			
DG Kario	*(iii)*	**1,602**	943
Commission expenses waived by:			
Bradly International Limited	*(iv)*	**158**	–

Notes:

(i) Sales made to Unix HK and Kario HK were determined on a cost-plus basis. Purchases from Kario HK were determined at terms mutually agreed by both parties, which were comparable to those similar products sourced from other third party suppliers of the Group.

(ii) Commissions received from Unix HK and DG Kario were for the introduction and referral of business opportunities and for rendering of overall management support. The commission received from Unix HK was determined at HK$0.5 per unit of product sold to customers. The commissions received from DG Kario were determined at 15% to 25% on the gross selling price (including value added tax) of goods sold to a major customer introduced by Kenford HK.

(iii) Reimbursement of expenses to DG Kario was recharged at cost.

(iv) Mr. Lam Wai Ming is the beneficial owner of Bradly International Limited.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

32. ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company at 31 March 2005 to be Beaute Inc., a company incorporated in the British Virgin Islands.

33. SUBSEQUENT EVENTS

Save as disclosed elsewhere in this consolidated financial statements, no other significant events took place subsequent to 31 March 2005.

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 22 July 2005.