NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

1 GENERAL INFORMATION

Alco Holdings Limited (the "Company") and its subsidiaries (together the "Group") design, manufacture and sell consumer electronic products and plastic products.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

The adoption of new/revised HKFRS

In the year ended 31st March 2006, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives for the year ended 31st March 2005 have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Translation and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33, 36, 38, HKAS-Int 15, HKFRSs 2 and 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest and other disclosures.

– HKASs 2, 7, 8, 10, 16, 23, 27, 33, 36, 38, HKAS-Int 15, HKFRSs 2 and 3 had no material effect on the Group's accounting policies.

– The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised HKAS 21.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification, measurement and recognition of financial instruments.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the income statement as part of other gains. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;
- HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1st April 2005;
- HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st April 2005; and
- HKFRS 3 – prospectively after 1st April 2005.

The adoption of revised HKAS 17 resulted in an increase in opening retained earnings at 1st April 2004 by HK$7,547,000.

	As at 31st March	
	2006	2005
	HK$'000	HK$'000
Decrease in property, plant and equipment	46,987	48,307
Increase in leasehold land and land use rights	56,497	56,835
Increase in retained earnings	9,510	8,528

	For the year ended 31st March	
	2006	2005
	HK$'000	HK$'000
Decrease in administrative expenses	982	981
Increase in basic earnings per share	HK0.2 cent	HK0.2 cent
Increase in diluted earnings per share	HK0.2 cent	HK0.2 cent

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of HKAS-Int 21 resulted in a decrease in opening retained earnings at 1st April 2004 by HK$1,180,000.

	As at 31st March	
	2006	2005
	HK$'000	HK$'000
Increase in deferred income tax liability	1,777	1,591
Decrease in retained earnings	1,777	1,591

	For the year ended 31st March	
	2006	2005
	HK$'000	HK$'000
Increase in income tax expense	186	411
Decrease in basic earnings per share	Nil	HK0.1 cent
Decrease in diluted earnings per share	Nil	HK0.1 cent

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st April 2006 or later periods but which the Group has not early adopted are as follows:

HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1st April 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group.

HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1st April 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1st April 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st April 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st March.

(a) Subsidiaries

Subsidiaries are those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation *(continued)*

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. This has been applied prospectively from 1st April 2005.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment *(continued)*

Depreciation of buildings and moulds are calculated using the straight-line method to allocate cost over their estimated useful life of 40 years and 4 years respectively. Other property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a reducing balance basis. The principal annual rates are as follows:

Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Plant and machinery	14.5%-20%
Motor vehicles	20%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. The valuations are performed by independent valuers based on an open market value basis related to individual property in accordance with the guidance issued by the International Valuation Standards Committee.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement as part of "other gains".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.7 Deferred development costs

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as deferred development costs when it is probable that the project will be a success considering its commercial and technologies feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised on a straight-line basis over a period of 30 months to reflect the pattern in which the relevant economic benefits are recognised.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

From 1st April 2005 onwards:

The Group classifies its financial assets in the following categories: loans and receivables and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classifications of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified in trade and other receivables in the balance sheet (Note 2.11).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.9 Financial assets *(continued)*

(b) Held-to-maturity investments

Held-to-maturity investments 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. If the Group were to sell other than an insignificant amount of held-to-maturity investments, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. In prior years, such investments are classified as long-term bank deposits.

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.11.

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade and other receivables are impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.16 Employee benefits

(a) Employee leave entitlements

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

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

(b) Pension obligations

The Group operates a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plan, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.18 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary courses of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Rental income is recognised on a straight-line basis over the periods of the respective leases.

(iii) Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.19 Leases

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance lease is depreciated over the estimated useful life of the asset.

2.20 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 FINANCIAL RISK MANAGEMENT

Risk management is carried out by the Group's treasury function. The Group adopts a conservative and balanced treasury policy which focuses on the financial risks factors as below and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

Foreign exchange risk

The Group is not significantly exposed to foreign exchange risk as nearly all of the Group's sales, purchases and borrowings are denominated in US dollar and HK dollar. The Group has natural hedges against currency risks and it is the Group's policy not to engage in speculative activities.

(b) Credit risk

The Group's sales are made to a number of reputable and creditworthy customers. To minimise the credit risk, the Group performs ongoing credit evaluations of its customers' financial conditions.

(c) Interest rate risk

As the Group has no significant interest-bearing assets, other than short-term bank deposits and held-to-maturity investments, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk.

(d) Liquidity risk

The Group adopts a prudent liquidity risk management policy to maintain sufficient cash to fund its operations.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimate of fair value of investment properties

In arriving at the fair value of the properties, the independent valuers have to make assumptions and economic estimates. Should these assumptions and estimates change, or not be met, the valuation as adopted in the financial statements will be affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

5 TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the design, manufacture and sale of consumer electronic and plastic products. Revenues recognised during the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Turnover		
Consumer electronic products	4,866,005	5,379,739
Plastic products	10,783	9,385
	4,876,788	5,389,124

(a) Primary reporting format – business segments

The Group mainly operates in the People's Republic of China (the "PRC") and Hong Kong in two main business segments:

Consumer electronic products – Design, manufacture and sale of consumer electronic products

Plastic products – Manufacture and sale of plastic and packaging products

The Group's inter-segment transactions mainly consist of plastic products between subsidiaries. The transactions were entered into under normal commercial terms and conditions that would also be available to unrelated third parties.

Segment assets consist primarily of property, plant and equipment, investment properties, leasehold land and land use rights, deferred development costs, held-to-maturity investments, inventories, receivables, operating cash and long-term bank deposits.

Segment liabilities comprise operating liabilities and exclude items such as taxation, minority interest and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, investment properties, leasehold land and land use rights and deferred development costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

5 TURNOVER AND SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments *(continued)*

The segment results and capital expenditure for the years ended 31st March 2006 and 2005 are as follows:

	Group							
	2006				2005 (Restated)			
	Consumer electronic products HK$'000	Plastic products HK$'000	Elimination HK$'000	Group HK$'000	Consumer electronic products HK$'000	Plastic products HK$'000	Elimination HK$'000	Group HK$'000
Turnover								
External sales	4,866,005	10,783	–	4,876,788	5,379,739	9,385	–	5,389,124
Inter-segment sales	–	206,005	(206,005)	–	–	215,190	(215,190)	–
	4,866,005	216,788	(206,005)	4,876,788	5,379,739	224,575	(215,190)	5,389,124
Segment results	338,460	388		338,848	273,736	590		274,326
Negative goodwill arising from additional interest in a subsidiary	–	–		–	–	5,223		5,223
Operating profit				338,848				279,549
Finance costs				(21,833)				(8,532)
Profit before income tax				317,015				271,017
Income tax expense				(33,540)				(28,782)
Profit for the year				283,475				242,235
Capital expenditure	56,471	23,620		80,091	89,454	13,665		103,119
Depreciation of property, plant and equipment	54,608	10,788		65,396	64,355	10,040		74,395
Amortisation of leasehold land and land use rights	326	12		338	326	12		338
Amortisation and write-off of deferred development costs	12,194	–		12,194	20,948	–		20,948
Impairment charges on property, plant and equipment	16,308	573		16,881	18,404	1,032		19,436

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

5 TURNOVER AND SEGMENT INFORMATION *(continued)*

(a) Primary reporting format – business segments *(continued)*

The segment assets and liabilities at 31st March 2006 and 2005 are as follows:

	Group							
	2006				2005 (Restated)			
	Consumer electronic products HK$'000	Plastic products HK$'000	Elimination HK$'000	Group HK$'000	Consumer electronic products HK$'000	Plastic products HK$'000	Elimination HK$'000	Group HK$'000
Segment assets	2,504,701	86,289	–	2,590,990	2,118,983	91,091	–	2,210,074
Segment liabilities	915,317	21,477	–	936,794	739,271	21,078	–	760,349
Unallocated liabilities				228,159				165,011
Total liabilities				1,164,953				925,360

(b) Secondary reporting format – geographical segment

The segment turnover for the years ended 31st March 2006 and 2005 are as follows:

	Group	
	2006 HK$'000	2005 HK$'000
North America	3,764,034	3,376,923
Europe	610,575	1,409,699
Asia	364,300	468,842
Australia and New Zealand	106,336	75,098
South America	17,014	39,811
Africa	14,529	18,751
	4,876,788	5,389,124

The analysis of turnover by geographical segment is based on the destination to which the shipments are made. No analysis of the contribution by geographical segments has been presented as the ratios of profit to turnover achieved for the above geographical segments are not substantially out of line with the Group's overall ratio of profit to turnover. Most of its assets and capital expenditure for the years ended 31st March 2006 and 2005 were located or utilised in the PRC and Hong Kong.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

6 OTHER GAINS

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
Interest income	35,299	19,496
Rental income from investment properties	3,232	2,788
Fair value gains on investment properties (Note 15)	1,800	4,000
Sale of moulds	3,053	2,300
Others	2,842	1,126
	46,226	29,710

7 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling expenses, administrative expenses and other operating expenses are analysed as follows:

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
Depreciation of property, plant and equipment	65,396	74,395
Amortisation of leasehold land and land use rights	338	338
Amortisation of deferred development costs	7,147	12,183
Auditors' remuneration	1,810	1,555
Impairment charges on property, plant and equipment	16,881	19,436
Write-off of deferred development costs	5,047	8,765
Loss on disposal of property, plant and equipment	813	7,168
Operating lease rental in respect of land and buildings	35,322	35,916
Research and development costs	20,005	20,748
Employee benefit expenses (including directors' emoluments) (Note 8)	303,600	286,696

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

8 EMPLOYEE BENEFIT EXPENSES (including directors' emoluments)

	Group	
	2006 HK$'000	2005 HK$'000
Wages and salaries	290,254	269,680
Pension costs – defined contribution retirement schemes (Note (a)(i))	3,461	3,232
Long service payments (Note (a)(ii))	(573)	(1,164)
Other staff benefits	10,194	14,659
Termination benefits	264	289
	303,600	286,696

Notes:

(a) Retirement benefit costs

	Group	
	2006 HK$'000	2005 HK$'000
Obligations on:		
– defined contribution retirement schemes (Note (i))	556	623
– long service payments (Note (ii))	6,908	7,481
	7,464	8,104

(i) Defined contribution retirement schemes

Before 1st December 2000, the Group operated a defined contribution retirement scheme (the "ORSO Scheme") in Hong Kong for all qualified employees. The rate of contribution payable by the Group is 5% of the individual employee's basic salaries.

With effect from 1st December 2000, the Mandatory Provident Fund Scheme (the "MPF Scheme") was set up under the MPF Scheme Ordinance for existing staff who opted for this scheme and eligible staff recruited on or after that date. The ORSO Scheme has remained in place with the introduction of the MPF Scheme. Under the MPF Scheme, eligible employees and the Group are required to contribute 5% on the employees' monthly net salaries with a maximum monthly contribution of HK$1,000.

Contributions to the ORSO Scheme and MPF Scheme charged to the consolidated income statement for the year amounted to HK$3,461,000 (2005: HK$3,232,000). Forfeited contributions in respect of the defined contribution retirement scheme of approximately HK$45,000 (2005: HK$272,000) were utilised during the year. No forfeiture balance (2005: HK$15,000) was available as at 31st March 2006 to reduce future contributions.

Contributions totalling HK$556,000 (2005: HK$623,000) were payable to the ORSO Scheme and MPF Scheme at the year end and were included in other payables and accruals.

8 EMPLOYEE BENEFIT EXPENSES (including directors' emoluments) *(continued)*

Notes: *(continued)*

(a) Retirement benefit costs *(continued)*

(ii) Long service payments

Long service payments provision is calculated in accordance with Section 31V of the Hong Kong Employment Ordinance at two-thirds of the employee's last full month's wages, or the two-thirds of HK$22,500, whichever is lower, with the total provision for each employee limited to HK$390,000. The provision balance is set-off against the Company's accumulated contributions to the ORSO and MPF Schemes.

(b) Directors' and senior management's emoluments

The remuneration received from the Group by every Director of the Company for the year ended 31st March 2006 is set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr LEUNG Kai Ching, Kimen	–	3,000	5,408	150	8,558
Mr LEUNG Wai Sing, Wilson	–	3,000	5,109	150	8,259
Mr KUOK Kun Man, Andrew	–	1,262	2,953	63	4,278
Mr WONG Po Yan	120	–	–	–	120
The Hon LI Wah Ming, Fred	120	–	–	6	126
Mr LAU Wang Yip, Derrick	120	–	–	6	126

The remuneration received from the Group by every Director of the Company for the year ended 31st March 2005 is set out below:

Name of Director	Fee	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr LEUNG Kai Ching, Kimen	–	3,000	4,416	150	7,566
Mr LEUNG Wai Sing, Wilson	–	3,000	2,365	150	5,515
Mr KUOK Kun Man, Andrew	–	1,262	1,889	63	3,214
Mr WONG Po Yan	120	–	–	–	120
The Hon LI Wah Ming, Fred	120	–	–	6	126
Mr LAU Wang Yip, Derrick	120	–	–	6	126

No directors waived emoluments in respect of the years ended 31st March 2006 and 31st March 2005.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

8 EMPLOYEE BENEFIT EXPENSES (including directors' emoluments) *(continued)*

Notes: *(continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,994	2,994
Discretionary bonuses	6,675	6,500
Contributions to pension schemes	87	87
	9,756	9,581

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK$3,000,001-HK$3,500,000	1	1
HK$6,000,001-HK$6,500,000	1	1

(d) Key management compensation

	Group	
	2006 HK$'000	2005 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	10,256	10,256
Discretionary bonuses	20,145	15,170
Contributions to pension schemes	450	450
	30,851	25,876

9 FINANCE COSTS

	Group	
	2006 HK$'000	2005 HK$'000
Interest expense:		
– bank borrowings and trust receipt loans	21,831	8,502
– Interest element of finance leases	2	30
	21,833	8,532

10 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
Current income tax		
– Hong Kong profits tax	36,767	24,687
– Under-provisions in prior years	3,187	188
Deferred income tax (Note 27)	(6,414)	3,907
	33,540	28,782

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
Profit before income tax	317,015	271,017
Tax calculated at a taxation rate of 17.5% (2005: 17.5%)	55,478	47,428
Effect of different taxation rates in other countries	275	775
Income not subject to tax	(41,444)	(29,376)
Expenses not deductible for tax purposes	13,645	7,387
Under-provisions in prior years	3,187	188
Unrecognised tax losses	2,399	2,380
Income tax expense	33,540	28,782

11 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$145,873,000 (2005: HK$89,568,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

12 EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Group	
	2006	2005 (Restated)
Profit attributable to equity holders of the Company (HK$'000)	283,475	239,716
Weighted average number of ordinary shares in issue (thousands)	559,967	547,470
Basic earnings per share (HK cents)	50.6	43.8

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: bonus warrants. For the bonus warrants a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding bonus warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the bonus warrants.

	Group	
	2006	2005 (Restated)
Profit attributable to equity holders of the Company (HK$'000)	283,475	239,716
Weighted average number of ordinary shares in issue (thousands)	559,967	547,470
Adjustments for		
– bonus warrants (thousands) (Note)	–	8,892
Weighted average number of ordinary shares for diluted earnings per share (thousands)	559,967	556,362
Diluted earnings per share (HK cents)	50.6	43.1

Note: There are no outstanding bonus warrants as at 31st March 2006. (Note 25)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

13 DIVIDENDS

	Company	
	2006	2005
	HK$'000	HK$'000
Interim dividend, paid, of HK6 cents (2005: HK5 cents) per ordinary share	33,675	27,832
Interim special dividend, paid, of HK4 cents (2005: nil) per ordinary share	22,450	–
Final dividend, proposed, of HK16 cents (2005: HK12 cents) per ordinary share	89,800	66,880
Final special dividend, proposed, of HK6 cents (2005: HK4 cents) per ordinary share	33,675	22,293
	179,600	117,005

At a meeting held on 18th July 2006, the directors proposed a final dividend of HK16 cents per ordinary share and a final special dividend of HK6 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31st March 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

14 PROPERTY, PLANT AND EQUIPMENT

(a) Details of movements in property, plant and equipment of the Group are as follows:

	Group						
	Buildings HK$'000	**Moulds** HK$'000	**Leasehold improvements** HK$'000	**Furniture, fixtures and equipment** HK$'000	**Plant and machinery** HK$'000	**Motor vehicles** HK$'000	**Total** HK$'000
At 1st April 2004, as restated							
Cost	27,336	302,086	85,187	277,892	468,486	19,639	1,180,626
Accumulated depreciation and impairment	(4,980)	(272,656)	(60,940)	(213,842)	(268,463)	(12,108)	(832,989)
Net book amount	22,356	29,430	24,247	64,050	200,023	7,531	347,637
Year ended 31st March 2005, as restated							
Opening net book amount	22,356	29,430	24,247	64,050	200,023	7,531	347,637
Additions	–	16,902	2,727	14,225	55,268	1,335	90,457
Disposals	–	(1,379)	(186)	(5,739)	(1,270)	(328)	(8,902)
Depreciation	(682)	(10,919)	(7,613)	(15,766)	(37,799)	(1,616)	(74,395)
Impairment charges	–	(8,744)	(3,137)	(6,717)	–	(838)	(19,436)
Closing net book amount	21,674	25,290	16,038	50,053	216,222	6,084	335,361
At 31st March 2005, as restated							
Cost	27,336	305,038	87,650	245,080	516,340	18,703	1,200,147
Accumulated depreciation and impairment	(5,662)	(279,748)	(71,612)	(195,027)	(300,118)	(12,619)	(864,786)
Net book amount	21,674	25,290	16,038	50,053	216,222	6,084	335,361
Year ended 31st March 2006							
Opening net book amount	21,674	25,290	16,038	50,053	216,222	6,084	335,361
Additions	–	24,276	3,157	14,888	25,875	1,016	69,212
Disposals	–	–	(29)	(1,263)	(689)	(53)	(2,034)
Depreciation	(681)	(11,551)	(3,440)	(11,784)	(36,630)	(1,310)	(65,396)
Impairment charges	–	(6,468)	(330)	(1,787)	(8,238)	(58)	(16,881)
Closing net book amount	20,993	31,547	15,396	50,107	196,540	5,679	320,262
At 31st March 2006							
Cost	27,336	306,804	90,639	249,682	533,719	19,064	1,227,244
Accumulated depreciation and impairment	(6,343)	(275,257)	(75,243)	(199,575)	(337,179)	(13,385)	(906,982)
Net book amount	20,993	31,547	15,396	50,107	196,540	5,679	320,262

14 PROPERTY, PLANT AND EQUIPMENT *(continued)*

(b) Depreciation expenses have been included in:

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
– Cost of goods sold	**61,015**	65,366
– Administrative expenses	**4,381**	9,029
	65,396	74,395

(c) The Group's interests in buildings at their net book values are analysed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
In Hong Kong held on:		
Leases of over 50 years	**9,573**	9,905
Leases of between 10 to 50 years	**340**	351
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**11,080**	11,418
	20,993	21,674

(d) As at 31st March 2006, the Company's property, plant and equipment comprised furniture, fixtures and equipment with a total cost of HK$41,000 (2005: HK$41,000) and accumulated depreciation of HK$41,000 (2005: HK$41,000).

15 INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK$'000	HK$'000
Beginning of the year	**34,260**	30,260
Fair value gains (Note 6)	**1,800**	4,000
End of the year	**36,060**	34,260

The investment properties were revalued at 31st March 2006 by independent, professionally qualified valuers, LCH (Asia-Pacific) Surveyors Limited.

Valuations were based on current prices in an active market for all properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

15 INVESTMENT PROPERTIES *(continued)*

The Group's interests in investment properties at their net book values are analysed as follows:

	Group	
	2006 HK$'000	2005 HK$'000
In Hong Kong held on:		
Leases of over 50 years	18,800	16,900
Leases of between 10 to 50 years	17,260	17,360
	36,060	34,260

16 LEASEHOLD LAND AND LAND USE RIGHTS

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
Opening net book amount	56,835	57,173
Amortisation	(338)	(338)
Closing net book amount	56,497	56,835

Amortisation expenses of prepaid operating lease payment have been included in:

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
– Administrative expenses	338	338

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
In Hong Kong held on:		
Leases of over 50 years	45,973	46,025
Leases of between 10 to 50 years	476	488
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	10,048	10,322
	56,497	56,835

17 DEFERRED DEVELOPMENT COSTS

	Group HK$'000
At 1st April 2004	
Cost	98,684
Accumulated amortisation	(82,286)
Net book amount	16,398
For the year ended 31st March 2005	
At 1st April 2004	16,398
Additions	12,662
Write-off	(8,765)
Amortisation	(12,183)
At 31st March 2005	8,112
At 31st March 2005	
Cost	62,340
Accumulated amortisation	(54,228)
Net book amount	8,112
For the year ended 31st March 2006	
At 1st April 2005	**8,112**
Additions	**10,879**
Write-off	**(5,047)**
Amortisation	**(7,147)**
At 31st March 2006	**6,797**
At 31st March 2006	
Cost	**69,566**
Accumulated amortisation	**(62,769)**
Net book amount	**6,797**

Amortisation expenses of deferred development cost have been included in:

	Group	
	2006 HK$'000	2005 HK$'000
– Cost of goods sold	**7,147**	12,183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

18 INVESTMENTS IN SUBSIDIARIES

	Company	
	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost (note (a))	67,586	67,586
Amounts due from subsidiaries (note (b))	290,421	291,336
	358,007	358,922

Notes:

(a) Details of principal subsidiaries are set out in Note 32 to the consolidated financial statements.

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

19 HELD-TO-MATURITY INVESTMENTS

	Group	
	2006 HK$'000	2005 HK$'000
Structured bank deposits in Hong Kong	110,887	–

The held-to-maturity investments are denominated in the following currencies:

	Group	
	2006 HK$'000	2005 HK$'000
Hong Kong dollar	10,000	–
US dollar	100,887	–
	110,887	–

These investments earn interests at rates offered by the banks. The fair value of these investments is not materially different from the carrying value.

20 INVENTORIES

	Group	
	2006 HK$'000	2005 HK$'000
Raw materials	235,701	310,983
Work in progress	75,872	41,163
Finished goods	306,832	197,400
	618,405	549,546

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$3,687,407,000 (2005: HK$4,256,218,000).

21 TRADE RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group	
	2006 HK$'000	2005 HK$'000
Trade receivables	395,911	348,819
Prepayments and deposits	17,599	18,797
	413,510	367,616

The credit terms given vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

The fair value of the trade receivables, prepayments and deposits approximate their carrying value.

At 31st March 2006 and 2005, the ageing analysis of the trade receivables based on invoiced date is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
0 – 30 days	211,571	225,711
31 – 60 days	144,560	105,146
61 – 90 days	38,427	13,338
Over 90 days	1,353	4,624
	395,911	348,819

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

22 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Cash at bank and in hand	141,959	59,824	93	164
Short-term bank deposits	886,613	687,120	–	–
	1,028,572	746,944	93	164

The cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Hong Kong dollar	61,555	18,694	93	164
US dollar	961,796	719,759	–	–
Others	5,221	8,491	–	–
	1,028,572	746,944	93	164

The cash and cash equivalents earn interests at deposit rates offered by the banks.

23 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	Group	
	2006 HK$'000	2005 HK$'000
Trade payables	513,900	447,937
Other payables and accruals	282,916	223,156
	796,816	671,093

23 TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS *(continued)*

At 31st March 2006 and 2005, the ageing analysis of the trade payables based on invoiced date is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
0 – 30 days	366,391	295,486
31 – 60 days	122,511	91,262
61 – 90 days	22,109	56,836
Over 90 days	2,889	4,353
	513,900	447,937

24 BORROWINGS

	Group	
	2006 HK$'000	2005 HK$'000
Non-current		
Bank borrowings, unsecured	77,682	40,000
Current		
Finance lease liabilities	–	206
Bank borrowings, unsecured	103,545	77,619
	103,545	77,825
Total borrowings	181,227	117,825

The bank borrowings are unsecured and are supported by corporate guarantees given by the Company (Notes 29 and 30).

The maturity of bank borrowings is as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Within 1 year	103,545	77,619
Between 1 and 2 years	77,682	32,500
Between 2 and 5 years	–	7,500
	181,227	117,619

Interests are charged on the bank borrowings at margin over the HIBOR rate. The carrying amounts of the borrowings approximate their fair value and are denominated in Hong Kong dollars.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

25 SHARE CAPITAL

	Company	
	Number of shares (Thousands)	Ordinary shares HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 31st March 2006 and 2005	800,000	80,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
At 1st April 2004	532,923	53,292
Exercise of bonus warrants	24,411	2,441
At 31st March 2005	557,334	55,733
At 1st April 2005	557,334	55,733
Repurchase of own shares (Note a)	(100)	(10)
Exercise of bonus warrants (Note b)	4,018	402
At 31st March 2006	561,252	56,125

Notes:

(a) **Repurchase of own shares**

On 25th October 2005, 100,000 shares of HK$0.10 each of the Company were repurchased at a price of HK$2.70 per share by the Company on The Stock Exchange of Hong Kong Limited and cancelled. Aggregate amount paid by the Company was HK$270,000.

25 SHARE CAPITAL *(continued)*

Notes: *(continued)*

(b) Exercise of bonus warrants

On 11th July 2002, the directors proposed to grant bonus warrants to the shareholders (other than overseas shareholders) whose names appeared on the register of members of the Company on 22nd August 2002 on the basis of one warrant for every ten ordinary shares of HK$0.10 each in the issued share capital of the Company held.

On 22nd August 2002, bonus warrants conferring rights to subscribe for 51,138,185 ordinary shares at HK$0.98 each were granted by the Board of Directors. The bonus warrants are exercisable at any time from 2nd September 2002 to 1st September 2005, both days inclusive.

During the year ended 31st March 2006, 4,017,632 (2005: 24,410,600) ordinary shares of HK$0.10 each of the Company were issued at a subscription price of HK$0.98 per share to bonus warrant holders on the exercise of their bonus warrants for a total cash consideration of HK$3,937,279 (2005: HK$23,922,388).

Details of the movement of bonus warrants during the year were as follows:

	Number of bonus warrants			
Subscription price per share	**Outstanding as at 31st March 2005**	**Exercised during the year**	**Forfeited during the year**	**Outstanding as at 31st March 2006**
HK$0.98	5,185,951	4,017,632	1,168,319	–

The bonus warrants had expired on 2nd September 2005. Bonus warrants outstanding as at 1st September 2005 were automatically forfeited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

26 RESERVES

	Group				
	Share premium HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1st April 2004, as previously reported	229,137	471	(3,168)	821,571	1,048,011
Adoption of revised HKAS 17	–	–	–	7,547	7,547
Adoption of HKAS-Int 21	–	–	–	(1,180)	(1,180)
Balance at 1st April 2004, as restated	229,137	471	(3,168)	827,938	1,054,378
Currency translation differences	–	–	2,445	–	2,445
Profit for the year	–	–	–	239,716	239,716
2005 interim dividend	–	–	–	(27,832)	(27,832)
2004 final and final special dividends	–	–	–	(58,622)	(58,622)
Adjustment of prior year dividends	–	–	–	(2,586)	(2,586)
Exercise of bonus warrants	21,482	–	–	–	21,482
Balance at 31st March 2005	250,619	471	(723)	978,614	1,228,981
Representing:					
Proposed dividend					89,173
Reserves					1,139,808
At 31st March 2005					1,228,981
Balance at 1st April 2005, as restated	250,619	471	(723)	978,614	1,228,981
Currency translation differences	–	–	122	–	122
Profit for the year	–	–	–	283,475	283,475
Repurchase of own shares	(260)	10	–	(10)	(260)
2006 interim dividend	–	–	–	(33,675)	(33,675)
2006 interim special dividend	–	–	–	(22,450)	(22,450)
2005 final and final special dividends	–	–	–	(89,173)	(89,173)
Adjustment of prior year dividends	–	–	–	(643)	(643)
Exercise of bonus warrants	3,535	–	–	–	3,535
Balance at 31st March 2006	253,894	481	(601)	1,116,138	1,369,912
Representing:					
Proposed dividend					123,475
Reserves					1,246,437
At 31st March 2006					1,369,912

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31st March 2006

26 RESERVES *(continued)*

	Company				
	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1st April 2004	229,137	471	40,586	5,634	275,828
Profit for the year	–	–	–	89,568	89,568
2005 interim dividend	–	–	–	(27,832)	(27,832)
2004 final and final special dividends	–	–	–	(58,622)	(58,622)
Adjustment of prior year dividends	–	–	–	(2,586)	(2,586)
Exercise of bonus warrants	21,482	–	–	–	21,482
Balance at 31st March 2005	250,619	471	40,586	6,162	297,838
Representing:					
Proposed dividend					89,173
Reserves					208,665
At 31st March 2005					297,838
Balance at 1st April 2005	250,619	471	40,586	6,162	297,838
Profit for the year	–	–	–	145,873	145,873
Repurchase of own shares	(260)	10	–	(10)	(260)
2006 interim dividend	–	–	–	(33,675)	(33,675)
2006 interim special dividend	–	–	–	(22,450)	(22,450)
2005 final and final special dividends	–	–	–	(89,173)	(89,173)
Adjustment of prior year dividends	–	–	–	(643)	(643)
Exercise of bonus warrants	3,535	–	–	–	3,535
Balance at 31st March 2006	253,894	481	40,586	6,084	301,045
Representing:					
Proposed dividend					123,475
Reserves					177,570
At 31st March 2006					301,045

Note:

The contributed surplus of the Company, which arose from a corporate reorganisation in November 1992, represents the difference between the nominal value of the Company's shares issued in exchange for the issued ordinary shares of Alco Investments (B.V.I.) Limited and the value of net assets of the underlying subsidiaries acquired as at 6th November 1992. Under the Companies Act 1981 of Bermuda (as amended), a company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. At Group level, the contributed surplus is classified into its components of reserves of the underlying subsidiaries.

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27 DEFERRED INCOME TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to setoff current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet.

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
Deferred income tax liabilities to be paid after more than 12 months	29,694	35,054
Deferred income tax assets to be recovered after more than 12 months	(1,530)	(476)
	28,164	34,578

The movement on the deferred income tax account is as follows:

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
At the beginning of the year	34,578	30,671
Recognised in the consolidated income statement (Note 10)	(6,414)	3,907
At the end of the year	28,164	34,578

The movement in deferred income tax assets and liabilities during the year, without taking into account to the offsetting of balances within the same taxation jurisdiction, is as follows:

Deferred tax (assets)/liabilities

	Tax losses		Accelerated tax depreciation		Deferred development costs		Others		Total	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000 (Restated)	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000 (Restated)
At the beginning of the year	(476)	(705)	32,249	29,226	2,125	1,817	680	333	34,578	30,671
Recognised in the consolidated income statement	(1,054)	229	(3,821)	3,023	(1,324)	308	(215)	347	(6,414)	3,907
At the end of the year	(1,530)	(476)	28,428	32,249	801	2,125	465	680	28,164	34,578

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27 DEFERRED INCOME TAX *(continued)*

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has tax losses of HK$12,132,000 (2005: HK$13,683,000) to carry forward against future taxable income.

28 CASH GENERATED FROM OPERATIONS

	Group	
	2006 HK$'000	2005 HK$'000 (Restated)
Profit before income tax	317,015	271,017
Interest income	(35,299)	(19,496)
Interest expense on bank borrowings and trust receipt loans	21,831	8,502
Interest element of finance leases	2	30
Amortisation of deferred development costs	7,147	12,183
Write-off of deferred development costs	5,047	8,765
Amortisation of premium on investment in securities	–	682
Loss on disposal of property, plant and equipment	813	7,168
Depreciation of property, plant and equipment	65,396	74,395
Amortisation of leasehold land and land use rights	338	338
Impairment charges on property, plant and equipment	16,881	19,436
Fair value gains on investment properties	(1,800)	(4,000)
Negative goodwill arising from additional interest in a subsidiary	–	(5,223)
Operating profit before working capital changes	397,371	373,797
(Increase)/decrease in inventories	(68,859)	47,282
Increase in trade receivables, prepayments and deposits	(45,894)	(17,351)
Increase in trade payables, other payables and accruals	125,653	85,964
Increase/(decrease) in trust receipt loans	50,928	(63,588)
Net cash generated from operations	459,199	426,104

29 BANKING FACILITIES

As at 31st March 2006, banking facilities of approximately HK$2,001 million (2005: HK$1,924 million) were granted by banks to the Group, of which approximately HK$321 million (2005: HK$207 million) have been utilised by the Group, which were supported by corporate guarantees given by the Company.

30 CONTINGENT LIABILITIES

The Company provided guarantees in favour of certain banks to secure general banking facilities granted to certain of its subsidiaries (Note 24).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 COMMITMENTS

(a) Capital commitments

	Group	
	2006 HK$'000	2005 HK$'000
Contracted but not provided for:		
Moulds, plant and machinery	8,225	6,582

(b) The Group's commitments under operating leases to make future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Not later than one year	32,854	33,493
Later than one year and not later than five years	44,093	39,035
Later than five years	17,082	19,279
	94,029	91,807

(c) At 31st March 2006, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Not later than one year	2,025	1,964
Later than one year and not later than five years	423	333
	2,448	2,297

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32 PRINCIPAL SUBSIDIARIES

As at 31st March 2006, the Company held interests in the following principal subsidiaries:

Name	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity held by the Company Direct	Percentage of equity held by the Company Indirect	Principal activities
Alco Investments (B.V.I.) Limited	British Virgin Islands	Ordinary US$50,000	100	–	Investment holding and provision of management services to its subsidiaries
Advance Packaging Limited	Hong Kong	Ordinary HK$500,000	–	100	Manufacture and sale of polyfoam and packaging products
Alco Communications Limited	Hong Kong	Ordinary HK$10,000	–	100	Manufacture of consumer electronic products
Alco Digital Devices Limited	Hong Kong	Ordinary HK$1,000,000	–	100	Software development and trading of electronic products
Alco Electronics Inc.	Canada	Ordinary C$500,000	–	100	Trading of consumer electronic products
Alco Electronics Limited	Hong Kong	Ordinary HK$1,000 Non-voting deferred HK$5,000,000	–	100	Design, manufacture and sale of consumer electronic products
Alco Electronics (Shenzhen) Limited	The PRC	Registered capital HK$8,000,000	–	100	Provision of design and logistic services to group companies
Alco International Limited	Hong Kong	Ordinary HK$500,000	–	100	Trading of consumer electronic products
Alco Plastic Products Limited	Hong Kong	Ordinary HK$3,000,000	–	100	Manufacture and sale of plastic products
Alco Properties Limited	Hong Kong	Ordinary HK$10,000	–	100	Property investment
Alco Technologies Limited	Hong Kong	Ordinary HK$10,000	–	100	Investment holding

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32 PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Percentage of equity held by the Company		Principal activities
			Direct	Indirect	
Asia Dragon International Limited	Hong Kong	Ordinary HK$10,000	–	100	Trading of consumer electronic products
Communsonic Industries Limited	Hong Kong	Ordinary HK$400,000	–	100	Manufacture of consumer electronic products

The above table lists out the principal subsidiaries of the Company as at 31st March 2006 which, in the opinion of the directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

33 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 18th July 2006.