Notes to the Financial Statements

For the year ended 31 March 2006

1. GENERAL INFORMATION

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

(b) Basis of preparation

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

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

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

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

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

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

HKAS 17 – Leases

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to "Interests in leasehold land held for own use under operating leases", which are carried at cost and amortised over the lease term on a straight-line basis. The change in accounting policy is adopted retrospectively and reflected by way of prior period adjustment and restatement of comparative figures.

Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

HKAS 32 and HKAS 39 – Financial Instruments

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

HKAS 32 and HKAS 39 – Financial Instruments (Continued)

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

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

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

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

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

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

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

Notes to the Financial Statements

For the year ended 31 March 2006

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

(i) The adoption of HKAS 17 resulted in:

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

	2006 HK$'000	2005 HK$'000
For the year ended 31 March		
Decrease in cost of sales - depreciation expense	**(71)**	(44)
Increase in cost of sales - amortisation expense	**71**	44
Increase/(decrease) in profit for the year	**–**	–

(ii) The adoption of HKFRS 2 resulted in:

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

(d) Basis of consolidation

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Subsidiaries

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

(f) Goodwill

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

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

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

(g) Impairment of non-financial assets

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

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

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

(h) Foreign currencies

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Foreign currencies (Continued)

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

(i) Financial Instruments

(i) Financial assets

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

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

(ii) Financial liabilities

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

- Trade payables and other short-term monetary liabilities are other financial liabilities, which are recognised at amortised cost.

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

(iii) Hedge accounting

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

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.

- For cash flow hedges, the hedged item in a forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

- The cumulative change in the fair value of the hedging instrument is expected to be between 80-125% of the cumulative change in the fair value or cash flows of the hedged item attributable to the risk hedged (ie it is expected to be highly effective).

- The effectiveness of the hedge can be reliably measured.

- The hedge is assessed on a quarterly basis and remains highly effective.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Financial Instruments (Continued)

(iii) Hedge accounting (Continued)

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

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

(iv) Derecognition

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

(j) Employee benefits

(i) Defined contribution retirement plan

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

(ii) Employment Ordinance long term service payment

Certain of the Group's Hong Kong based employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

(iii) Termination benefits

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

(iv) Employee entitlements

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Share-based payment

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

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

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

(l) Leases

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

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

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

(m) Research and development costs

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

(n) Property, plant and equipment

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Property, plant and equipment (Continued)

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

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

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

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

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

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

(o) Borrowing costs

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

(p) Inventories

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Revenue recognition

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

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

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

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

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

(r) Income taxes

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

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

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

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

(s) Provisions and contingent liabilities

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(t) Dividends

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

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

(u) Segment reporting

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

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

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

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

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

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

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

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

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

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

4. TURNOVER

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

5. OTHER REVENUE

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

6. SEGMENT INFORMATION

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

(a) Business segments

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

6. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

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

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

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

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

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

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

7. PROFIT FROM OPERATIONS

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

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

Note:

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

8. STAFF COSTS

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

9. FINANCE COSTS

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

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

10. TAX EXPENSE

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

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

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

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

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

10. TAX EXPENSE (Continued)

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

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

Note:

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

11. DIVIDENDS

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

Notes:

(i) The amount represented dividend declared by a subsidiary of the Group to its then shareholders before the group reorganisation.

(ii) The directors recommended a final dividend of HK$0.003 per share. This proposed dividend is not reflected as a dividend payable at 31 March 2006, but is reflected as an appropriation of retained profits for the year ended 31 March 2006.

Notes to the Financial Statements

For the year ended 31 March 2006

12. EARNINGS PER SHARE

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

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

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

13. EMOLUMENTS FOR DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments:

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

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

(a) Directors' emoluments: (Continued)

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

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

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

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

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

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

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

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

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

The emoluments fell within the following bands:

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

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

14. PROPERTY, PLANT AND EQUIPMENT

Group

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

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

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

Notes:

(i) The Group's interests in leasehold land and buildings are situated in Hong Kong and held under medium term leases. The mortgages on the leasehold land and buildings as part of collateral for banking facilities granted to the Group (note 30) were released during the year.

(ii) The Group's leasehold land and buildings in Hong Kong and the buildings in PRC were previously recorded at cost and were revaluated on 31 March 2006, on the basis of their market value, by Norton Appraisal Limited, an independent firm of property valuer. Had the revaluated properties been measured on a historical cost basis, their net book values would have been HK$11,535,000 and HK$35,464,000 (2005: HK$11,816,000 and HK$36,382,000 as restated) respectively.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes: (Continued)

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

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

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

Group

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

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

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

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

16. GOODWILL

Group

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

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

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

17. INVESTMENTS IN SUBSIDIARIES

Company

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

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

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

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

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

18. INVENTORIES

Group

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

19. TRADE AND BILLS RECEIVABLES

Group

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

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

The aging analysis of trade receivables is as follows:

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

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

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

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

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

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

20. SUPPLEMENTAL INFORMATION TO CONSOLIDATED CASH FLOW STATEMENT

Group

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

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

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

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

(b) Major non-cash transactions

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

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

21. TRADE AND BILLS PAYABLES

Group

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

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

21. TRADE AND BILLS PAYABLES (Continued)

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

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

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

22. BORROWINGS

Group

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

The maturity profile of the above borrowings is as follows:

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

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

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

22. BORROWINGS (Continued)

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

23. OBLIGATIONS UNDER FINANCE LEASES

Group

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

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases repayable:				
Within one year	**479**	1,045	**457**	1,014
In the second to third years, inclusive	**158**	633	**155**	599
	637	1,678	**612**	1,613
Less: Future finance charges	**(25)**	(65)		
Present value of lease obligations	**612**	1,613		
Less: Amounts due within one year shown under current liabilities			**(457)**	(1,014)
Amounts due after one year			**155**	599

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

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

24. DEFERRED TAX

Group

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

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

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

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

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

25. SHARE CAPITAL

Company

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

Notes to the Financial Statements

For the year ended 31 March 2006

25. SHARE CAPITAL (Continued)

Company

Issued share capital	*Note*	Number of shares ordinary share of HK$0.001 each	Nominal value HK$
Allotted and issued nil-paid upon incorporation	*(ii),(iii)*	1	–
Allotted and issued nil-paid on 19 November 2004	*(ii),(iii)*	1	–
Issue of shares for shares exchange	*(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	*(viii)*	100,000,000	100,000
Capitalisation of share premium account	*(vii)*	–	200,000
At 31 March 2006		400,000,000	400,000

Notes:

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

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

(iii) On 23 March 2005, the Company issued an aggregate of 58,399,998 shares, credited as fully paid up. In addition, the Company credited as fully paid at par the 2 nil-paid shares.

(iv) On 23 March 2005, the Company acquired certain subsidiaries in consideration of cash payments and issue of an aggregate of 14,400,000 shares upon completion of the acquisition on 23 March 2005.

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

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

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

(viii) On the Listing Date 16 June 2005, 100,000,000 shares (with Warrants) of the Company were issued to the Public at a premium of HK$0.549 for cash totalling HK$54,900,000. The excess of the issued price over the par value of the shares, net of share issue expenses, was credited to the share premium account of the Company.

25. SHARE CAPITAL (Continued)

Share option scheme

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

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

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

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

Warrants

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

26. SHARE-BASED PAYMENT

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

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

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

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

26. SHARE-BASED PAYMENT (Continued)

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

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

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

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

Notes:

(a) The share price of the Company's shares at the date of grant of the options was estimated to be HK$0.55 per share, which is equal to the offer price.

(b) The strike price is one third of the offer price.

(c) The minimum exercise price is 1.25 times of the offer price.

(d) The options life is 3 years from the date of listing.

27. RESERVES

Company

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

28. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

29. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 2, management has made the following judgements that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

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

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

Impairment loss on trade receivables

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

Impairment on inventories

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

Income taxes

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

Impairment on goodwill

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

30. BANKING FACILITIES

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

31. RETIREMENT BENEFITS

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

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

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

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

32. CONTINGENT LIABILITIES

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

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

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

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

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

33. CAPITAL COMMITMENTS

Group

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

34. LEASE ARRANGEMENTS

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

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

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

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

35. RELATED PARTY TRANSACTIONS

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

(i) Name and relationship of related parties

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

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

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

Note:

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

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

35. RELATED PARTY TRANSACTIONS (Continued)

(iii) Key management compensation is as follows:

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

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

36. ULTIMATE HOLDING COMPANY

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

37. APPROVAL OF FINANCIAL STATEMENTS

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