ESPCO TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8299)

ANNUAL REPORT 2005/06

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Espco Technology Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

Corporate Information

Registered office	Century Yard Cricket Square Hutchins Drive P.O. Box 2681 GT George Town Grand Cayman, Cayman Islands British West Indies
Head office and principal place of business	Rooms 3 & 4 9th Floor, Vanta Industrial Centre 21-33 Tai Lin Pai Road Kwai Chung, New Territories Hong Kong
Company homepage/website	http://www.espco.com
Company secretary	Mr. Kwok Chi Shan, *FCCA, CPA*
Qualified accountant	Mr. Kwok Chi Shan, *FCCA, CPA*
Compliance officer	Mr. Chan Hing Yin
Audit committee	Mr. Tam Yuk Sang, Sammy *(Chairman of Audit Committee)* Mr. Lam Ping Cheung Ms. Chan Yi Man, Magdalen
Remuneration committee	Ms. Chan Yi Man, Magdalen *(Chairman of Remuneration Committee)* Mr. Tam Yuk Sang, Sammy Mr. Chan Hing Yin
Authorised representatives	Mr. Chan Hing Yin Mr. Kwok Chi Shan
Process agent under Part XI of the Companies Ordinance	Mr. Chan Hing Yin
Stock code	8299
Principal bankers	Bank of China (Hong Kong) Limited Chiyu Banking Corporation Limited Wing Lung Bank Limited
Principal share registrar and transfer office	Bank of Bermuda (Cayman) Limited P.O. Box 513 GT Strathvale House North Church Street George Town Grand Cayman, Cayman Islands British West Indies
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

Chairman's Statement

On behalf of the board of directors (the "Board") of Espco Technology Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I am very pleased to present the Company's annual report for the year ended 31 March 2006.

REVIEW OF OPERATIONS

During the year under review, competitions from the manufacturers in Taiwan still gave a lot of pressure to the Group's business. After adopting the strategy of increasing the proportion of processing services income to total revenue, the Group succeeded in increasing its revenue. This strategy also improved the Group's gross profit margin.

The Group has finished the installation of new SMT production lines in January 2006. In addition to increase in production capacity, it enables the Group to produce more complicated VGA cards.

FINANCIAL RESULTS

The Group recorded a total revenue of approximately HK$402.4 million for the year ended 31 March 2006, representing an increase of approximately 3.5% over the last year. Profit attributable to shareholders for the year ended 31 March 2006 amounted to approximately HK$8.5 million, representing a decrease of approximately 7.7% when compared to that of last year.

DIVIDEND

The Board recommended a final dividend of HK0.9 cent per share, which is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

PROSPECTS

In view of shortening in product life cycle of the chipset, the Group is trying to shorten the time for product design in order to launch new models of VGA cards to the market once the new models of chipset are available. The Board is considering different scenarios to maximize the utilization rate of the SMT production lines, including teaming up business partners and increasing the proportion of processing services income to total revenue, Besides, the Board is looking for any investment opportunity that could complement the Group's existing business.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my gratitude to our shareholders for their continued support and all our employees for their dedicated services.

CHAN HING YIN
Chairman

Hong Kong, 26 June 2006

COMPARISON OF BUSINESS PLAN WITH THE ACTUAL BUSINESS PROGRESS

Set out below is a comparison between the Group's actual business progress for the year ended 31 March 2006 and its business plan as stated in the prospectus of the Company dated 14 September 2004 (the "Prospectus").

Business Plan	Actual business progress
(i) To upgrade the production facilities	
– Complete the installation of and put the 4th SMT production line in full operation.	Complete the installation of and put the 4th SMT production line in full operation in January 2006.
– Installation and testing of the 5th SMT production line.	Complete the installation of and put the 5th SMT production line in full operation in January 2006.
(ii) To promote the Group's brandname "EAGLE"	
– Advertise the Group's products in magazines	During the year, the Group periodically placed advertisements in major computer magazines in Hong Kong, Europe and PRC.
– Send out souvenirs to potential customers at "CeBIT".	Send out souvenirs to potential customers at "Gitex 2005" instead.
– Periodic review of the Group's strategies on product advertisements.	Advertise full range of products from low to top models.
– Participate in the computer exhibition "Computex" to be held in Taiwan.	Attend but not participate as the exhibition date was close to that of Gitex.
– Participate in the technology exhibition "CeBIT" to be held in Germany.	Participate in "Gitex 2005" at Dubai instead.

Review of Business Plan

(iii)	*To explore new markets and expand distribution network*	
–	Establish subsidiaries or branch offices in Hungary or Austria.	The Board is still looking for the appropriate place for setting up the first office in Eastern Europe.
–	Employ 2 to 3 staff for the subsidiaries or branch offices.	Explain as above.
–	Continue the distribution arrangements in the Eastern European markets.	Explain as above.
–	Review the performance of the distribution arrangement in the Eastern European markets and adjust the sales and marketing strategies accordingly.	Explain as above.
(iv)	*To expand the research and development capability*	
–	Recruit 4 technicians and 1 design engineer in the PRC.	The Group has already recruited 3 technicians and 1 design engineer.
–	Develop new models of VGA display card and motherboard in order to cope with the latest development of CPU and requirements in visual display.	During the year, the Group successfully developed a series of products with the "7" series of Nvidia chipset.
–	Review periodically the existing products and initiate projects to improve their functionalities and reduce production cost.	A team of technicians continuously reviews and initiates projects of product development and cost reduction.

USE OF PROCEEDS

The net proceeds raised from the listing of the Company on the GEM on 23 September 2004 was approximately HK$19.5 million.

Up to 31 March 2006, the Company had incurred the following amount to achieve its business objectives as set out in the Prospectus:

	From the date of listing on GEM on 23 September 2004 to 31 March 2006	
	Proposed	**Actual**
	HK$'000	***HK$'000***
To upgrade the production facilities	5,500	7,902
To promote the Group's brandname "EAGLE"	1,350	1,074
To explore new markets and expand distribution network	750	124
To expand research and development capabilities	260	22
General working capital	6,000	6,000
	13,860	15,122

Save as disclosed above, all unused proceeds from the listing have been deposited at bank to prepare for future use as set out in the Business Plan in the Prospectus.

Management Discussion and Analysis

FINANCIAL REVIEW

The Group recorded a total revenue of approximately HK$402.4 million and profit attributable to shareholders of approximately HK$8.5 million for the year ended 31 March 2006, representing an increase of approximately 3.5% and a drop of 7.7% respectively when compared to that of last year. Basic earnings per share for the year is approximately HK2.38 cents.

The increase in total revenue was mainly attributable to the significant increase in the proportion of processing services income to the total revenue. Since processing services have a relatively low cost base, it can generate a higher gross profit margin. The Group's overall gross profit margin for the year was approximately 5.7% against 5.2% (as restated) recorded for last year. Despite of the increase in gross profit, total staff costs for the year increased by approximately 16.5%. Besides, during the year under review, one of the customers in Singapore had undergone liquidation and the Group has made a significant provision in this respect. Due to the above two factors, the Group's profit attributable to shareholders for the year decreased to approximately HK$8.5 million.

REVENUE ANALYSIS

The Group is principally engaged in the design, manufacture and distribution of desktop PC components. Revenues recognised in the current and previous years are as follows:

	For the year ended 31 March				
	2006		2005		
	Revenue *HK$'000*	Portion	Revenue *HK$'000*	Portion	Increase/ (decrease) (%)
Sales of own manufactured goods	313,429	78%	286,012	74%	9%
Trading of PC components	55,563	14%	89,816	23%	(38%)
Processing fee income	33,437	8%	13,032	3%	157%
Total	402,429	100%	388,860	100%	3%

BUSINESS REVIEW

Due to the continuing development of computer games over the Internet, the demand for high quality VGA display cards increases. During the year under review, the Group successfully launched a series of product with the "7" series of Nvidia chipset to the market and the Group's product lines then cover from the low-end to high-end products. To expand the distribution network, the Group has engaged a distributor in the Republic of Korea during the year and expects contributions in a few years' time. Since the prices of major PC components were very volatile during the year, the Group took a conservative approach in trading PC components in order to minimize the price risk and the revenue from this segment for the year then decreased significantly.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations by cash flow generated from sales and from its banking facilities. As at 31 March 2006, the Group had net current assets of approximately HK$55,884,000 of which approximately HK$15,647,000 was cash and bank balances while current portion of interest-bearing borrowings was approximately HK$5,328,000. As at 31 March 2006, the Group had total banking facilities of approximately HK$23,431,000, approximately HK$8,455,000 of which had been utilized. The Group's banking facilities were secured by fixed charges on certain of the Group's leasehold land and buildings with an aggregate net book value of approximately HK$3,500,000 and machinery with an aggregate net book value of approximately HK$5,642,000 and by corporate guarantees executed by the Company.

In view of the current cash position, the banking facilities available and the expected future cash flow from operations, the Directors believe that the Group has sufficient financial resources to meet its operation needs.

FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars ("HK dollars") and United States dollars ("US dollars"). During the year ended 31 March 2006, the Group had an insignificant amount of exchange difference.

The Group adopted a conservative treasury policy, with most of the bank deposits being kept in HK dollars and US dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 March 2006, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

EMPLOYEE INFORMATION

The remuneration for the employees of the Group amounted to approximately HK$11,570,000, including Directors' emoluments of approximately HK$1,586,000 for the year ended 31 March 2006. As at 31 March 2006, the Group employed 488 employees in the PRC, Hong Kong, Singapore and Macau.

MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 March 2006, the Group did not have any material acquisitions and disposals of subsidiaries.

GEARING RATIO

The Group's gearing ratio as at 31 March 2006 increased to 10.2% from 7% (restated) as at 31 March 2005. The gearing ratio was calculated as the Group's interest-bearing borrowings to the shareholders' equity as at the respective balance sheet dates. The increase in gearing ratio was due to the increase in bank loans for the purchase of machinery.

CHARGES ON THE GROUP'S ASSETS

As at 31 March 2006, the Group's leasehold land and buildings with net book value of approximately HK$3,500,000 (2005: HK$3,300,000) and machinery with net book value of approximately HK$5,642,000 (2005: Nil) were pledged as collaterals for the Group's banking facilities of approximately HK$8,000,000 and HK$4,893,000 respectively.

CONTINGENT LIABILITIES

Save as disclosed in note 32 to the financial statements, as at 31 March 2006, the Directors were not aware of any material contingent liabilities.

Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Chan Hing Yin, aged 51, is the founder and the Chairman of the Group and the elder brother of Mr. Chan Hing Kai. He is responsible for the Group's overall management, strategic planning and development, and formulation of company policies and business strategy. Mr. Chan has about 22 years of experience in the PC industry. He is also the Compliance Officer of the Company.

Mr. Chan Hing Kai, aged 38, is an executive Director and the younger brother of Mr. Chan Hing Yin. He is responsible for overseeing the general administration, sales and marketing and purchasing activities of Espco Computer (S) Pte Limited. He has over 10 years of experience in the PC industry and joined the Group in 1996.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Ping Cheung, aged 54, is a practising solicitor in Hong Kong and the sole proprietor of Andrew Lam & Co., a law firm in Hong Kong. He is also the independent non-executive director of several listed companies in Hong Kong including China United Holdings Limited, Hansom Eastern (Holdings) Limited (now known as Freeman Corporation Limited) and Unity Investments Holdings Limited.

Mr. Tam Yuk Sang, Sammy, aged 42, graduated from Hong Kong Polytechnic University and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is currently a partner of a corporate strategy and management advisory company. Mr. Tam is also an independent non-executive director of two other public listed companies in Hong Kong, namely, Ngai Lik Industrial Holdings Limited and Kith Holdings Limited.

Ms. Chan Yi Man, Magdalen, aged 49, is the human resources director of a wholly owned subsidiary of a global electronic manufacturer with its headquarters in the Netherlands. She graduated from the Chinese University of Hong Kong with a bachelor's degree in social science in 1981 and had obtained a postgraduate diploma in management studies from The City University of Hong Kong (formerly known as the City Polytechnic of Hong Kong) in 1989. She has many years of experience in human resources management and administration, some of which were gained in listed groups in Hong Kong.

SENIOR MANAGEMENT

Ms. Yan Chuk Heung, aged 39, is the General Manageress of the Group. She is responsible for overseeing the Group's general administration, sales and marketing and purchasing. She has over 16 years of experience in the PC industry and joined the Group in March 1990.

Mr. Wo Wai Shing, aged 41, is the Engineering Manager of the Group. He is responsible for the Group's overall product design and engineering. Mr. Wo holds a bachelor's degree with honours in electronic engineering from The Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic). He has over 17 years of experience in computer engineering. He joined the Group in April 1999.

Directors and Senior Management

Mr. Kwok Chi Shan, aged 43, is the Financial Controller of the Group and Qualified Accountant and Company Secretary of the Company. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has over fifteen years of experience in auditing and finance fields and joined the Group in December 2005.

Mr. Chan Kit Hung, aged 47, is a director and the General Manager of Espco Computer (Shenzhen) Company Limited ("Espco Shenzhen") responsible for overseeing the operations and productions of Espco Shenzhen. Mr. Chan joined the Group in 1990 and has over 16 years of experience in the PC industry.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board believes that a high standard of corporate governance is one of the essential elements of the success of a listed company and has adopted various procedures suggested in the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 15 to the GEM Listing Rules, in regulating the Group's business activities.

The Company has complied with the CG Code during the year ended 31 March 2006 with the exception of code provision A.2.1 in respect of the separation of the roles of chairman and chief executive officer.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the directors of the Company, all directors of the Company , except Mr. Lam Ping Cheung who has not given his confirmation regarding director's securities transactions to the Company due to his personal reasons, have confirmed that they had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the year ended 31 March 2006.

BOARD OF DIRECTORS

The Board currently comprises:

Executive Directors:
Mr. Chan Hing Yin *(Chairman)*
Mr. Chan Hing Kai

Independent Non-Executive Directors:
Mr. Lam Ping Cheung
Mr. Tam Yuk Sang, Sammy
Ms. Chan Yi Man, Magdalen

Mr. Chan Hing Yin is the elder brother of Mr. Chan Hing Kai. Except for the aforesaid, there is no relationship (including financial, business, family or other material/relevant relationship) among members of the Board.

For a Director to be considered independent, the Board must determine whether the Director has direct or indirect material relationship will the Company. In determining the independence of directors, the Board follows the requirements set out in the GEM Listing Rules. Save for Mr. Lam Ping Cheung who has not given his annual confirmation of independence to the Company due to his personal reasons, each of the independent non-executive Director has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the independent non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and that they are independent.

During the year ended 31 March 2006, five regular board meetings were held and individual attendance of Directors are set out as follows:

Name of Director	Attended/Eligible to attend
Mr. Chan Hing Yin	5/5
Mr. Chan Hing Kai	2/5
Mr. Lam Ping Cheung	4/5
Mr. Tam Yuk Sang, Sammy	5/5
Ms. Chan Yi Man, Magdalen	5/5

The Board, led by the Chairman, is responsible for the formulation of company wide strategies and policies including, but not limited to, merger and acquisition, material capital commitment, change in share capital, dividend policy and approval of financial statements. The Board has delegated the responsibilities of day-to-day management of the Group's business to the executive Directors.

During the year ended 31 March 2006, the Board has reviewed a report regarding internal controls prepared by the internal finance department and discussed relevant issues covering financial, operational and compliance controls and risk management functions.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Chan Hing Yin is the chairman of the Board and the chief executive officer of the Group. It deviates from the code provision A.2.1 of the CG Code which requires the roles of chairman and chief executive officer to be separate. The Board considers that current arrangement enables an efficient implementation of the Board' decision. Since the Board has reserved the decision-making authorities on major matters, the Company believes that the balance of power between the Board and the management will not be impaired.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has entered into a service contract with the Company for a fixed term of two years commencing from 23 September 2004 subject to retirement of rotation and re-election in accordance with the provisions of the Articles of Association of the Company.

REMUNERATION COMMITTEE

The remuneration committee of the Board (the "Remuneration Committee") was set up in March 2006 with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Remuneration Committee have been posted on the Company's website. The role of the Remuneration Committee is to make recommendations to the Board on remuneration policy and structure for Directors and senior management of the Company. The main duties of the Remuneration Committee include determining the specific remuneration packages of all executive Directors and senior management of the Company, reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time and ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration. The Remuneration Committee currently comprises:

Independent Non-Executive Directors:
Ms. Chan Yi Man, Magdalen *(Chairman of Remuneration Committee)*
Mr. Tam Yuk Sang, Sammy

Executive Director:
Mr. Chan Hing Yin

During the year ended 31 March 2006, the Remuneration Committee held one meeting and individual attendance of members of the Remuneration Committee are set out as follows:

Name of Member	**Attended/Eligible to attend**
Ms. Chan Yi Man, Magdalen	1/1
Mr. Tam Yuk Sang, Sammy	1/1
Mr. Chan Hing Yin	1/1

The Remuneration Committee has performed the following works during the year in discharging its responsibilities:

(i) approved the remuneration policy for executive Directors; and

(ii) reviewed and approved the remuneration packages of executive Directors.

NOMINATION OF DIRECTORS

The Board has not set up a nomination committee for the appointment of Directors.

In accordance with the Company's Articles of Association, the Board is empowered at any time to appoint any person as a director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any director so appointed shall retire and be eligible for re-election at the following annual general meeting. The criteria for selecting a director are mainly based on the candidate's quality which includes, but not limited to, his/her qualification, experience, professional knowledge, ethics and integrity. During the year ended 31 March 2006, no new director was appointed either to fill a casual vacancy or as an addition to the Board.

AUDITORS' REMUNERATION

During the year ended 31 March 2006, remuneration payable to the Company's auditors, Graham H. Y. Chan & Co. (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally), for audit and non-audit services provided to the Group is set out as follow:

	HK$'000
Audit services	380
Non-audit services	107
	487

AUDIT COMMITTEE

The Board has established an audit committee (the "Audit Committee") with specific written terms of reference in compliance with the requirements set out in Rules 5.28 to 5.29 of the GEM Listing Rules. The terms of reference of the Audit Committee have been posted on the Company's website. The primary duties of the Audit Committee are (i) to review the Company's financial statements and provide advice and comments thereon to the Board; (ii) to oversee the financial reporting system and internal control procedures of the Group; and (iii) to monitor relationship with the Company's auditors. The Audit Committee currently comprises all three independent non-executive Directors, namely:

Mr. Tam Yuk Sang, Sammy *(Chairman of Audit Committee)*
Mr. Lam Ping Cheung
Ms. Chan Yi Man, Magdalen

Mr. Tam Yuk Sang, Sammy possesses the appropriate accounting professional qualification as required under rule 5.28 of the GEM Listing Rules.

During the year ended 31 March 2006, the Audit Committee held four meetings and individual attendance of members of the Audit Committee are set out as follows:

Name of Member	**Attended/Eligible to attend**
Mr. Tam Yuk Sang, Sammy	4/4
Mr. Lam Ping Cheung	3/4
Ms. Chan Yi Man, Magdalen	4/4

The Audit Committee has performed the following works during the year in discharging its responsibilities:

(i) reviewed the draft annual, interim and quarterly reports and related draft results announcements;

(ii) together with other Directors, reviewed a report regarding the internal controls prepared by the internal finance department and discussed relevant issues covering financial, operational and compliance controls and risk management functions;

(iii) reviewed the adoption of new accounting standards; and

(iv) reviewed the terms of enactment of the external auditors.

RESPONSIBILITY FOR PREPARATION OF FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. A statement by the Company's auditors about their reporting responsibilities in the auditors' report on the Group's financial statements is set out on page 24.

Report of the Board of Directors

The Board have pleasure in submitting the report of the Board together with the audited financial statements of the Company for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year was investment holding and those of its subsidiaries are set out in note 18 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 26 to 29.

A final dividend of HK0.9 cent per share in respect of the year ended 31st March 2005 was paid on 3rd August 2005. The Directors recommended the payment of a final dividend of HK0.9 cent per share in respect of the year ended 31 March 2006 to the shareholders whose names appear on the register of members on 26 July 2006. Total dividend declared for the year ended 31 March 2006 amounted to approximately HK$3,214,000.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 26 to the financial statements.

RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity on page 30 respectively.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 76.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 61% of the total revenue and sales to the largest customer included therein accounted for 20% of the Group's total revenue. Purchases from the Group's five largest suppliers accounted for 61% of the total purchases for the year and purchases from the largest supplier included therein accounted for 33%.

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the Companies Law (Revised) of the Cayman Islands.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to the Directors and eligible employees. Details of the scheme are set out in note 27 to the financial statements.

DIRECTORS

The Directors who held office during the financial year and as at the date of this report were:

Executive directors:
Mr. Chan Hing Yin *(Chairman)*
Mr. Chan Hing Kai

Independent non-executive directors:
Mr. Lam Ping Cheung
Mr. Tam Yuk Sang, Sammy
Ms. Chan Yi Man, Magdalen

In accordance with Article 87 of the Company's Articles of Association, Mr. Tam Yuk Sang, Sammy will retire from office by rotation and, being eligible, offer himself for re-election at the forthcoming annual general meeting. All other directors of the Company continue in office.

In accordance with the provisions of the Company's Articles of Association, at each annual general meeting one-third of the Directors for the time being, except for the chairman and managing director, shall retire from office by rotation and a retiring Director shall be eligible for re-election.

Each of the independent non-executive Directors, except for Mr. Lam Ping Cheung who has not given his annual confirmation of independence to the Company due to his personal reasons, has confirmed his/her independence to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive directors to be independent.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on page 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a fixed term of three years commencing from 23 September 2004, the listing date unless and until terminated by not less than three months' notice in writing served by either party on the other.

Each of the independent non-executive Directors has entered into a service contract with the Company for a fixed term of two years commencing from 23 September 2004, the listing date, unless and until terminated by not less than three months' notice in writing served by either party on the other.

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in note 34 to the financial statements, no contracts of significance in relation to the Group's business to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTINUING CONNECTED TRANSACTION

Details of the continuing connected transactions under the GEM Listing Rules during the year are set out in note 34 to the financial statements. In accordance with the criteria set out in Rule 20.33 of the GEM Listing Rules, it is exempted from the reporting, announcement and independent shareholders' approval requirements of Chapter 20 of the GEM Listing Rules.

REMUNERATION OF DIRECTORS AND THE HIGHEST PAID EMPLOYEES

Details of the remuneration of the Directors and the highest paid employees of the Group are set out in notes 14 and 15 to the financial statements respectively.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company dated 6 September 2004, the Company has conditionally adopted the Share Option Scheme under which options to subscribe for the shares of the Company may be granted under the terms and conditions stipulated therein. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix 5 to the prospectus issued by the Company on 14 September 2004 in connection with its initial public offering of shares. As at 31 March 2006, no option was granted under the Share Option Scheme.

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under section 352 of the SFO, or which is otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company

Name of Director	Nature of interest	Number and class of securities	Approximate % of the issued share capital of the Company
Mr. Chan Hing Yin	Interest of controlled corporation	249,992,200 ordinary shares of HK$0.01 each *(Note)*	70%

Note: These shares are held by Osborne Pacific Limited ("Osborne") which is wholly and beneficially owned by Mr. Chan Hing Yin.

Save as disclosed above, as at 31 March 2006, none of the Directors or chief executives of the Company had any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

DIRECTORS' AND EMPLOYEES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share options that may be granted under the share option scheme of the Company adopted on 6 September 2004 (the "Share Option Scheme"), none of the Directors or employees of the Group or their respective associates were granted by the Company or its subsidiaries the rights to acquire shares or debentures of the Company or any other body corporate, or had exercised any such rights as at 31 March 2006.

SUBSTANTIAL SHAREHOLDER

So far as is known to any Director or chief executive of the Company, as at 31 March 2006, the following person (other than the Directors and chief executives of the Company whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO:

Long position in shares of the Company

Name of shareholder	Nature of interest	Number and class of securities	Approximate % of the issued share capital of the Company
Osborne	Beneficial owner	249,992,200 shares *(Note 1)*	70%
Chan, Selma *(Note 2)*	Family interest of controlled corporation	249,992,200 shares *(Note 2)*	70%

Note:

(1) These shares are held by Osborne which is wholly and beneficially owned by Mr. Chan Hing Yin.

(2) These were the same shares held by Osborne. As Ms. Chan, Selma is the spouse of Mr. Chan Hing Yin, she is deemed to have interests in the shares held by Osborne, which is wholly and beneficially owned by Mr. Chan Hing Yin.

Save as disclosed above, as at 31 March 2006, the Company had not been notified of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which were required to be kept under Section 336 of the SFO.

COMPETING INTEREST

None of the directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the year under review.

COMPLIANCE ADVISER'S INTERESTS

Pursuant to the agreement dated 30 September 2005 entered into between the Company and Barits (Hong Kong) Limited ("Barits"), Barits has been appointed as the compliance adviser of the Company as required under the GEM Listing Rules at a fee for the period from 1 October 2005 to 31 March 2007 or until the aforesaid agreement is terminated in accordance with the terms and conditions set out therein.

None of Barits, its directors, employees or associates (as defined in the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group, or had any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 March 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 March 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Shares.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 July 2006 to 26 July 2006, both days inclusive, during which period no share transfers will be registered. All transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 21 July 2006.

AUDITORS

A resolution to re-appoint the retiring auditors, Graham H. Y. Chan & Co., is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chan Hing Yin
Chairman

Hong Kong
26 June 2006

Report of the Auditors

GRAHAM H.Y. CHAN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

AUDITORS' REPORT TO THE SHAREHOLDERS OF
ESPCO TECHNOLOGY HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements set out on pages 26 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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

Report of the Auditors

OPINION

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

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)

Hong Kong, 26 June 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
Revenue	5	**402,429**	388,860
Cost of sales		**(379,359)**	(368,617)
Gross profit		**23,070**	20,243
Other income	7	**391**	885
Selling and distribution expenses		**(659)**	(855)
Administrative expenses		**(14,089)**	(11,467)
Surplus arising from revaluation of properties		**316**	1,183
Operating profit	8	**9,029**	9,989
Finance costs	9	**(400)**	(207)
Profit before taxation		**8,629**	9,782
Taxation	10	**(116)**	(558)
Profit attributable to the shareholders	11	**8,513**	9,224
Dividends	12	**3,214**	4,285
Earnings per share	13	**HK Cents**	HK Cents (restated)
Basic		**2.38**	2.97

Consolidated Balance Sheet

As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	16	**26,787**	20,021
Prepaid land lease premium	17	**1,445**	1,439
Trade and other receivables	20	**2,452**	–
Deferred tax assets	25	**200**	220
		30,884	21,680
Current assets			
Prepaid land lease premium	17	**31**	30
Inventories	19	**20,672**	13,335
Trade and other receivables	20	**43,543**	54,157
Bank balances and cash	21	**15,647**	11,410
		79,893	78,932
Current liabilities			
Trade and other payables	22	**17,635**	18,123
Amounts due to directors	23	**–**	62
Interest-bearing borrowings – due within one year	24	**5,328**	4,845
Tax payable		**1,046**	893
		24,009	23,923
Net current assets		**55,884**	55,009
Total assets less current liabilities		**86,768**	76,689
Non-current liabilities			
Interest-bearing borrowings – due after one year	24	**3,127**	477
Deferred tax liabilities	25	**911**	552
		4,038	1,029
Net assets		**82,730**	75,660

Consolidated Balance Sheet

As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
Capital and reserves			
Share capital	*26*	**3,571**	3,571
Reserves		**79,159**	72,089
Total equity attributable to equity shareholders of the Company		**82,730**	75,660

The financial statements on pages 26 to 75 were approved and authorised for issue by the board of directors on 26 June 2006 and are signed on its behalf by:

Chan Hing Yin
Director

Chan Hing Kai
Director

Balance Sheet

As at 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Investments in subsidiaries	18	**23,153**	17,252
Current assets			
Deposits and prepayments		**93**	87
Bank balance and cash		**3**	2,303
		96	2,390
Current liabilities			
Amounts due to directors		**–**	62
Other payables and accruals		**95**	36
		95	98
Net current assets		**1**	2,292
Net assets		**23,154**	19,544
Capital and reserves			
Share capital	26	**3,571**	3,571
Reserves	28	**19,583**	15,973
		23,154	19,544

Chan Hing Yin
Director

Chan Hing Kai
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2006

	Issued share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000 (note 28(iv))	Revalu-ation reserve HK$'000	Statutory surplus reserve HK$'000 (note 28(i))	Statutory welfare fund HK$'000 (note 28(ii))	Statutory general reserve HK$'000 (note 28(iii))	Retained profits HK$'000	Total HK$'000
At 1 April 2004										
As originally stated	–	3,000	25	13,463	9,652	325	162	–	27,861	54,488
Effect of adoption of HKAS 17	–	–	–	–	(4,661)	–	–	–	1,883	(2,778)
As restated	–	3,000	25	13,463	4,991	325	162	–	29,744	51,710
Change in equity for 2005										
Deficit arising from revaluation of properties	–	–	–	–	(311)	–	–	–	–	(311)
Deferred tax credit arising from revaluation of properties	–	–	–	–	86	–	–	–	–	86
Exchange differences arising from translation of financial statements of overseas subsidiaries	–	–	(21)	–	–	–	–	–	–	(21)
Net expenses directly recognised in equity	–	–	(21)	–	(225)	–	–	–	–	(246)
Profit for the year	–	–	–	–	–	–	–	–	9,224	9,224
Total income and expenses for the year	–	–	(21)	–	(225)	–	–	–	9,224	8,978
Placing of shares	964	26,036	–	–	–	–	–	–	–	27,000
Placing and listing expenses	–	(7,457)	–	–	–	–	–	–	–	(7,457)
Capitalisation issues	2,607	(2,607)	–	–	–	–	–	–	–	–
Transfer to statutory reserves *(Note 28(iii))*	–	–	–	–	–	–	–	485	(485)	–
Dividends – 2004 final	–	–	–	–	–	–	–	–	(3,500)	(3,500)
Dividends – 2005 interim	–	–	–	–	–	–	–	–	(1,071)	(1,071)
At 31 March 2005, as restated	3,571	18,972	4	13,463	4,766	325	162	485	33,912	75,660
At 1 April 2005										
As originally stated	3,571	18,972	4	13,463	9,151	325	162	485	31,535	77,668
Effect of adoption of HKAS 17	–	–	–	–	(4,385)	–	–	–	2,377	(2,008)
As restated	3,571	18,972	4	13,463	4,766	325	162	485	33,912	75,660
Change in equity for 2006										
Surplus arising from revaluation of properties	–	–	–	–	2,254	–	–	–	–	2,254
Deferred tax charge arising from revaluation of properties *(Note 25)*	–	–	–	–	(373)	–	–	–	–	(373)
Exchange differences arising from translation of financial statements of overseas subsidiaries	–	–	(63)	–	(47)	–	–	–	–	(110)
Net income/(expenses) directly recognised in equity	–	–	(63)	–	1,834	–	–	–	–	1,771
Profit for the year	–	–	–	–	–	–	–	–	8,513	8,513
Dividends – 2005 final	–	–	–	–	–	–	–	–	(3,214)	(3,214)
At 31 March 2006	3,571	18,972	(59)	13,463	6,600	325	162	485	39,211	82,730

Consolidated Cash Flow Statement

For the Year Ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Operating activities	29(a)		
Cash from/(used in) operations		**12,058**	(8,435)
Interests on bank loans and overdrafts paid		**(400)**	(154)
Interest element of finance leases paid		**–**	(53)
Hong Kong profits tax paid		**(89)**	(1,229)
Overseas taxation paid		**(51)**	(182)
Overseas taxation refunded		**158**	–
Net cash from/(used in) operating activities		**11,676**	(10,053)
Investing activities			
Purchases of property, plant and equipment		**(7,003)**	(1,637)
Interest received		**4**	1
Net cash used in investing activities		**(6,999)**	(1,636)
Financing activities			
New bank loans raised		**4,893**	1,900
Net (decrease)/increase in trust receipt loans		**(704)**	3,922
Bank loans repaid		**(1,056)**	(3,245)
Repayment of capital element of finance leases		**–**	(2,241)
Dividends paid		**(3,214)**	(4,571)
Decrease in pledged deposits with banks		**–**	2,003
Net proceeds from issue of shares by the Company		**–**	19,543
Net cash (used in)/from financing activities		**(81)**	17,311
Net increase in cash and cash equivalents		**4,596**	5,622
Cash and cash equivalents at beginning of year		**11,410**	5,807
Effect of foreign exchange rate changes		**(359)**	(19)
Cash and cash equivalents at end of year	29(b)	**15,647**	11,410

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 12 March 2003 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The directors consider Osborne Pacific Limited, a company incorporated in the British Virgin Islands, to be the parent and ultimate holding company of the Company.

Pursuant to a group reorganisation (the "Reorganisation") completed on 6 September 2004 in preparation for the listing of the Company's shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Eagle Up Holdings Limited ("Eagle Up") through a share swap and became the holding company of Eagle Up and its subsidiaries. Further details of the Reorganisation are set out in Appendix 5 of the Prospectus of the Company dated 14 September 2004. The shares of the Company were listed on the GEM of the Stock Exchange on 23 September 2004.

The Reorganisation is accounted for using merger accounting. Under this basis, the consolidated financial statements of the Group for the year ended 31 March 2005 are prepared as if the Company had been the holding company of the companies comprising the Group from the beginning of the earliest period presented.

The address of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in note 18 to the financial statements.

2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and interpretations (hereinafter collectively referred as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the result for the current and/or prior accounting periods are prepared and presented.

2 ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Owner-occupied leasehold land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation 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 element, in which case, the entire lease is generally treated as a finance lease. 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.

Share-based payments

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, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these options until they were exercised. There were no share options granted by the Company after 7 November 2002 but had not vested before 1 January 2005. Accordingly, the adoption of HKFRS 2 in respect of share options granted has had no effect on these financial statements.

Details of the employee share option scheme are set out in note 27.

3 SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effect of changes in the accounting policies described above on the results for the current and prior years are as follows:

	2006 *HK$'000*	2005 *HK$'000*
Increase in amortisation of land lease premium *(note)*	**(31)**	(30)
Decrease in depreciation *(note)*	**496**	524
Decrease in taxation credit	**(107)**	–
Increase in profit for the year	**358**	494
Increase in basic earnings per share (HK Cents)	**0.10 cent**	0.16 cent

Note: The amounts were included in cost of sales in the consolidated income statement.

The effect of changes in the accounting policies described above on the Group's balance sheets are as follows:

Group	**As previously reported** *HK$'000*	**Effect of adoption of HKAS 17** *HK$'000*	**As restated** *HK$'000*
At 31 March 2005 and 1 April 2005			
Property, plant and equipment	23,942	(3,921)	20,021
Prepaid land lease premium (current and non-current)	–	1,469	1,469
Deferred tax liabilities	(996)	444	(552)
	22,946	(2,008)	20,938
Revaluation reserve	9,151	(4,385)	4,766
Retained profits	31,535	2,377	33,912
	40,686	(2,008)	38,678

Group	**Previous accounting policy** *HK$'000*	**Effect of adoption of HKAS 17** *HK$'000*	**Adoption of HKAS 17** *HK$'000*
At 31 March 2006			
Property, plant and equipment	28,687	(1,900)	26,787
Prepaid land lease premium (current and non-current)	–	1,476	1,476
Deferred tax liabilities	(975)	64	(911)
	27,712	(360)	27,352
Revaluation reserve	9,682	(3,082)	6,600
Retained profits	36,476	2,735	39,211
Exchange reserve	(46)	(13)	(59)
	46,112	(360)	45,752

3 SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

The Group has not early applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	The effects of changes in foreign exchange rates – Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial instruments: recognition and measurement and insurance contracts – Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market-waste, electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economies[4]
HK(IFRIC) – INT 8	Scope of HKFRS 2[5]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[6]

[1] Effective for the annual periods beginning on or after 1 January 2007
[2] Effective for the annual periods beginning on or after 1 January 2006
[3] Effective for the annual periods beginning on or after 1 December 2005
[4] Effective for the annual periods beginning on or after 1 March 2006
[5] Effective for the annual periods beginning on or after 1 May 2006
[6] Effective for the annual periods beginning on or after 1 June 2006

The Directors anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group.

4 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation of the financial statements

These financial statements have been prepared in accordance with new HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The measurement basis used in the preparation of the financial statements is the historical cost basis except that the leasehold properties are measured at revalued amounts as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 35.

(b) Subsidiaries

Subsidiaries are all entities over which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale or included in a disposal group that is classified as held for sale. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Property, plant and equipment

Land and building

The land and buildings elements of a lease of land and buildings are considered separately for the purpose 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 can be made reliably, the leasehold interests in land are classified as prepaid land lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis, and the buildings elements are classified as property, plant and equipment.

Land and buildings that are classified as property, plant and equipment are stated at valuation, being the fair value at the date of revaluation, less subsequent accumulated depreciation or amortisation. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction and is determined on the basis of existing use. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

Depreciation of leasehold land and buildings in Hong Kong

Depreciation of the Group's leasehold land and buildings in Hong Kong is calculated to write off their valuation over the expected useful lives to the Group on a straight-line basis.

Depreciation of buildings in the PRC, excluding Hong Kong

Depreciation of the Group's buildings in the PRC, excluding Hong Kong is calculated on a straight-line basis to write off their valuation over the unexpired term of the relevant land use rights or 20 years, whichever is shorter.

Other items of 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.

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Property, plant and equipment *(continued)*

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives. The principal annual rates used for this purpose are as follows:

Plant and machinery	8 – 20%
Furniture, fixtures and office equipment	20%
Leasehold improvement	20%
Motor vehicles	20%

Useful lives and depreciation method are reviewed and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. The gain or loss on disposal or retirement of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(d) Leases

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

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance lease charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see note 4(l) below).

Rentals applicable to operating leases net of any incentives received from the leasing company are charged to the income statement on straight line basis over the lease term.

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Leases *(continued)*

Land lease prepayments under operating leases are up-front payments to acquire long-term interests in lessee-occupied properties. Land lease prepayments are stated at cost less accumulated amortisation and any impairment and are amortised over the remaining lease terms on a straight-line basis to the income statement.

(e) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure.

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

(f) Financial instruments

Financial assets and financial liabilities are recognised on the Group's and the Company's balance sheet when the Group and the Company have become a party to the contractual provisions of the instrument.

(i) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits with banks.

(iii) Trade and other payables

Trade and other payable are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) Financial instruments *(continued)*

(iv) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method.

(v) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

(g) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately unless the revalued asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

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

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Employee benefits

(i) Short term employee benefits in the form of leave

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

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

(ii) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently-administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme. The Group's contributions to the MPF Scheme are recognised as an expense in the income statement as incurred.

(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) Employment Ordinance long service payment

Certain of the Group's employees have completed the required number of years of service to the Group to be eligible for long service payments under the Hong Kong Employment Ordinance (the "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. No provision has been made for this amounts as it is not expected to be crystallised in the foreseeable future.

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity, if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose.

Deferred tax liabilities are recognised for all material taxable temporary differences:

– except when the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognised for all material deductible temporary differences, carryforward or unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised:

– except when the deferred tax assets relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(i) Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence 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.

(k) Translation of foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group 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 ("HK$"), which is the Company's functional and presentation currency.

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Translation of foreign currencies *(continued)*

(ii) 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.

Translation differences on non-monetary items such as equities instruments held at fair value through income statement are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are, included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all 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:

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

(b) 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

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

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying assets for its intended use or sale are interrupted or complete.

(m) Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

- control, is controlled by, or is under common control with, the Group;
- has an interest in the Company that gives it significant influence over the Group; or
- has joint control over the Group

(ii) the party is a member of key management personnel of the Company or its parent company;

(iii) the party is a close member of the family of any individual referred to in (i) and (ii);

(iv) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entities resides with, directly or indirectly, the individual referred to in (ii) or (iii);

(v) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of goods, on the transfer of risks and rewards of ownership, which generally coincides with the time when goods are delivered to customers and title has passed;

(ii) processing fee income, when the services are rendered; and

(iii) Interest income is recognised as it accrues using the effective interest method.

(o) Research and development costs

All research costs are expensed as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

During the year, all research and development costs have been expensed.

(p) 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.

Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment capital expenditure comprises additions to property, plant and equipment.

5 REVENUE

Revenue, which is also the Group's turnover, represents the aggregate of amounts received and receivable for goods sold and services rendered, net of returns, by the Group to outsider customers during the year and is analysed as follows:

	2006	2005
	HK$'000	*HK$'000*
Sale of own-manufactured goods at invoiced value, net of returns and discounts	**313,429**	286,012
Trading of PC components	**55,563**	89,816
Processing fee income	**33,437**	13,032
	402,429	388,860

6 SEGMENTAL INFORMATION

Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

No segment information by business segment is presented as the Group primarily operates in a single business segment which is the manufacturing and distribution of desktop PC components throughout the years ended 31 March 2005 and 2006.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditures are based on the geographical location of the assets.

The Group's operations are located in Hong Kong, Macau, other part of the PRC and Singapore whereas the principal markets for the Group's products are mainly located in Hong Kong, Taiwan, other part of the PRC, Singapore, Australia, Europe and other Asia-Pacific regions.

6 SEGMENTAL INFORMATION *(continued)*

	2006 HK$'000	2005 HK$'000 (restated)
Segment revenue by location of customers		
PRC, excluding Hong Kong and Taiwan	**267,727**	240,840
Taiwan	**15,288**	40,236
Hong Kong	**61,476**	40,621
Singapore	**20,508**	30,362
Australia	**5,893**	4,128
Other Asia-Pacific regions	**26,694**	26,825
Europe	**3,510**	3,804
Other regions	**1,333**	2,044
	402,429	388,860
Segment assets by location of assets		
PRC, excluding Hong Kong and Macau	**24,153**	17,239
Hong Kong	**49,045**	36,872
Singapore	**9,421**	10,008
Macau	**28,158**	36,493
	110,777	100,612
Capital expenditures by location of assets		
PRC, excluding Hong Kong and Macau	**6,972**	1,434
Hong Kong	**29**	116
Singapore	**2**	87
	7,003	1,637

7 OTHER INCOME

	2006 HK$'000	2005 HK$'000
Interest income	4	1
Advertising rebate	322	546
Sundry income	65	338
	391	885

8 OPERATING PROFIT

Operating profit is stated after charging the following:

	2006 HK$'000	2005 HK$'000 (restated)
Cost of inventories sold *(note (i))*	379,882	369,017
Auditors' remuneration *(note (v))*	429	423
Amortisation of land lease premium *(note (ii))*	31	30
Depreciation *(note (ii))*	3,043	3,141
Operating lease rentals in respect of land and buildings *(note (iii))*	538	751
Impairment loss recognised in respect of trade and other receivables	1,489	–
Legal and professional fees	1,060	500
Research and development cost *(note (iv))*	1,015	1,247
Staff costs including directors' emoluments *(note (v))*		
– salaries, wages, allowances and benefits in kind *(note (ii))*	11,266	9,933
– retirement benefits scheme contributions *(note 27(i))*	304	296
– staff messing and welfare	1,126	670

8 OPERATING PROFIT *(continued)*

Notes:

(i) Cost of inventories sold on the face of the consolidated income statement includes reversal of write-down of inventories of HK$523,000 (2005: HK$400,000).

(ii) Included in the respective balances are the following amounts which are also included in the amounts of "Cost of sales" on the face of the consolidated income statement of the Group:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Amortisation of land lease premium	**31**	30
Depreciation	**2,519**	2,632
Staff costs – salaries, wages, allowances and benefits in kind	**4,457**	3,618

(iii) Included in the operating lease rentals in respect of land and buildings are rentals paid for the directors' quarters of HK$354,000 (2005: HK$300,000) which had also been included in staff costs disclosed above.

(iv) Included in the research and development costs are staff costs of HK$1,015,000 (2005: HK$1,244,000) which had also been included in staff costs disclosed above.

(v) Except for the amounts mentioned in note (ii) above, which had been included in other items in the consolidated income statement, these amounts had been included in administrative expenses in the consolidated income statement.

9 FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**400**	154
Finance lease charges	**–**	53
	400	207

10 TAXATION

	2006 HK$'000	2005 HK$'000
Current tax:		
Hong Kong profits tax		
– Provision for current year	257	332
Overseas taxation		
– provision for current year	36	99
– over-provision for previous years	(160)	–
	133	431
Deferred tax *(note 25)*		
– current year	(55)	127
– under-provision for previous years	38	–
	(17)	127
	116	558

Hong Kong profits tax has been provided in the financial statements at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong for the year.

Overseas taxation represents tax charges on the estimated assessable profits of subsidiaries operating overseas including the PRC, calculated at rates applicable in the respective jurisdictions for the year.

易盈電腦(深圳)有限公司("Espco Shenzhen"), being a foreign investment enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to the preferential foreign enterprise income tax ("FEIT") of 15% on its assessable profit. In accordance with the relevant income tax laws and regulations in the PRC, Espco Shenzhen is exempted from FEIT for two years commencing from its first profit-making year of operation after offsetting prior year tax losses, followed by a 50% reduction in tax rate for the following three years. Espco Shenzhen's first profit-making year started in 2001. The applicable income tax rate for the year ended 31 March 2005 and the nine months period ended 31 December 2005 is 7.5%, representing 50% of the full FEIT rate to which Espco Shenzhen is subject and 15% on its assessable profit afterwards.

10 TAXATION *(continued)*

SPI Distribution Macao Commercial Offshore Limited ("Espco Macau") has been registered as an "Offshore Commercial Services Institution" with the Macao Trade and Investment Promotion Institute. In accordance with the Macao Special Administrative Region's Offshore Law, Espco Macau is exempted from Macau income tax derived from its offshore business.

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follow:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Profit before taxation	**8,629**	9,782
Tax at the applicable tax rate in Hong Kong	**1,510**	1,712
Tax effect of non-deductible expenses	**178**	146
Tax effect of non-taxable income	**(99)**	(77)
Tax exemption granted to overseas subsidiaries	**(1,359)**	(1,247)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3**	24
Deferred tax assets not recognised	**5**	–
Over-provision in previous years	**(122)**	–
Taxation charge for the year	**116**	558

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit attributable to the shareholders of HK$8,513,000 (2005 (restated): HK$9,224,000), a profit of HK$6,824,000 (2005: HK$1,072,000) has been dealt with in the Company's own financial statements.

12 DIVIDEND

	2006 HK$'000	2005 HK$'000
Interim, paid, of nil in respect of 2006 (2005: HK0.3 cent) per ordinary share	–	1,071
Final, proposed, of HK0.9 cent in respect of 2006 (2005: HK0.9 cent) per ordinary share	**3,214**	3,214
	3,214	4,285

The 2006 final dividends of HK0.9 cent per share has been proposed by the directors of the Company and are subject to approval by the shareholders in the forthcoming annual general meeting.

13 EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to the shareholders of HK$8,513,000 (2005 (restated): HK$9,224,000), and the weighted average number of 357,136,200 (2005: 310,901,679) ordinary shares in issue during the year.

Diluted earnings per share amounts have not been presented as the Company did not have any dilutive potential ordinary shares during the year.

14 DIRECTORS' EMOLUMENTS

An analysis of remuneration paid and payable to directors of the Company for the year ended 31 March 2006 and 2005 are set out as follows:

	Directors' fee	Salaries, allowances and benefits in kind	Retirement scheme contribution	2006 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Chan Hing Yin	–	852	12	864
Chan Hing Kai	–	472	–	472
Independent non-executive directors				
Lam Ping Cheung	100	–	–	100
Tam Yuk Sang, Sammy	100	–	–	100
Chan Yi Man, Magdalen	50	–	–	50
	250	1,324	12	1,586

	Directors' fee	Salaries, allowances and benefits in kind	Retirement scheme contribution	2005 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Chan Hing Yin	–	784	12	796
Chan Hing Kai	–	527	–	527
Independent non-executive directors				
Lam Ping Cheung	52	–	–	52
Tam Yuk Sang, Sammy	52	–	–	52
Chan Yi Man, Magdalen (appointed on 30 August 2004)	26	–	–	26
	130	1,311	12	1,453

None of the directors of the Company waived or agreed to waive any emoluments paid by the Group and no incentive payment for joining the Group or compensation for loss of office was paid or payable to any director of the Company during the years ended 31 March 2006 and 2005.

15 EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: two) are directors whose emoluments are disclosed in note 14. The aggregate of the emoluments in respect of the other three (2005: three) individuals whose emolument fell within the band of nil to HK$1,000,000 are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, allowances and benefits in kind	**1,259**	1,504
Retirement benefits scheme contributions	**31**	36
	1,290	1,540

During the years ended 31 March 2006 and 2005, no emoluments were paid to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

16 PROPERTY, PLANT AND EQUIPMENT

The Group	Leasehold land and building in Hong Kong held for own use HK$'000	Buildings in PRC held for own use HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Leasehold improve-ment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation							
At 1 April 2004 (restated)	2,470	5,277	17,563	529	3,400	1,626	30,865
Additions	–	–	1,143	203	291	–	1,637
Adjustment on revaluation	1,130	(898)	–	–	–	–	232
Currency realignment	–	–	–	1	1	3	5
At 31 March 2005 (restated)	3,600	4,379	18,706	733	3,692	1,629	32,739
Representing:							
Cost (restated)	–	–	18,706	733	3,692	1,629	24,760
At 2005 valuation (restated)	3,600	4,379	–	–	–	–	7,979
	3,600	4,379	18,706	733	3,692	1,629	32,739
At 1 April 2005 (restated)	3,600	4,379	18,706	733	3,692	1,629	32,739
Additions	–	–	6,817	24	162	–	7,003
Adjustment on revaluation	300	1,607	–	–	–	–	1,907
Currency realignment	–	114	263	2	87	9	475
At 31 March 2006	3,900	6,100	25,786	759	3,941	1,638	42,124
Representing:							
Cost	–	–	25,786	759	3,941	1,638	32,124
At 2006 valuation	3,900	6,100	–	–	–	–	10,000
	3,900	6,100	25,786	759	3,941	1,638	42,124
Accumulated depreciation							
At 1 April 2004 (restated)	–	–	7,433	329	1,569	881	10,212
Charge for the year	53	587	1,413	139	696	253	3,141
Elimination on revaluation	(53)	(587)	–	–	–	–	(640)
Currency realignment	–	–	–	1	1	3	5
At 31 March 2005 (restated)	–	–	8,846	469	2,266	1,137	12,718
At 1 April 2005 (restated)	–	–	8,846	469	2,266	1,137	12,718
Charge for the year	109	554	1,310	97	720	253	3,043
Elimination on revaluation	(109)	(554)	–	–	–	–	(663)
Currency realignment	–	–	166	2	62	9	239
At 31 March 2006	–	–	10,322	568	3,048	1.399	15,337
Net book value							
At 31 March 2006	3,900	6,100	15,464	191	893	239	26,787
At 31 March 2005 (restated)	3,600	4,379	9,860	264	1,426	492	20,021

16 PROPERTY, PLANT AND EQUIPMENT *(continued)*

The leasehold land and buildings in Hong Kong for own use and the buildings in the PRC for own use are held under leases of between 10 to 50 years.

As at 31 March 2006, certain of the Group's land and buildings in Hong Kong with an aggregate net book value of approximately HK$3,500,000 (2005: HK$3,300,000) have been pledged to secure general banking facilities granted to the Group (Note 33).

The Group's land and buildings were revalued by Malcolm & Associates Appraisal Limited, an independent firm of professional valuers, on the basis of open market value in the existing state as at 31 March 2006. As a result of the revaluation, a revaluation surplus of approximately HK$2,570,000 was recognised, of which HK$316,000 has been credited to the consolidated income statement and HK$2,254,000 to the revaluation reserve.

Had these properties held for own use been carried at cost less accumulated depreciation, the carrying amounts would have been:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Buildings in the PRC excluding Hong Kong	**610**	679
Leasehold land and buildings in Hong Kong	**4,093**	4,221
	4,703	4,900

17 PREPAID LAND LEASE PREMIUM

	The Group
Cost	*HK$'000*
At 1 April 2004	
As previously reported	–
Reclassification upon adoption of HKAS 17	1,520
At 1 April 2004 and 31 March 2005 (as restated)	1,520
At 31 March 2005 and 1 April 2005	
As previously reported	–
Reclassification upon adoption of HKAS 17	1,520
At 1 April 2005 (as restated)	1,520
Currency realignment	40
At 31 March 2006	1,560
Accumulated amortisation	
At 1 April 2004	
As previously reported	–
Reclassification upon adoption of HKAS 17	21
As restated	21
Provided for the year	30
At 31 March 2005 (as restated)	51
At 31 March 2005 and 1 April 2005	
As previously reported	–
Reclassification upon adoption of HKAS 17	51
As restated	51
Provided for the year	31
Exchange realignment	2
At 31 March 2006	84
Net book value	
At 31 March 2006	1,476
At 31 March 2005 (as restated)	1,469

The leasehold land of the Group is situated in the PRC and is held under land use rights of 50 years commencing from 1 August 2003.

17 PREPAID LAND LEASE PREMIUM *(continued)*

Analysed for reporting purposes as:

	2006	2005
	HK$'000	*HK$'000*
Current asset	**31**	30
Non-current asset	**1,445**	1,439
	1,476	1,469

The land lease is stated at recoverable amount subject to impairment test pursuant to HKAS 36 which is based on the higher of fair value less costs of sell and the value in use. The fair value less costs to sell of the land lease was determined with reference to a qualified external valuer's valuation.

18 INVESTMENTS IN SUBSIDIARIES – COMPANY

	2006	2005
	HK$'000	*HK$'000*
Unlisted shares, at cost	**–**	–
Amounts due from subsidiaries *(note (b))*	**23,153**	17,252
	23,153	17,252

18 INVESTMENTS IN SUBSIDIARIES – COMPANY *(continued)*

(a) The following is a list of the subsidiaries of the Company as at 31 March 2006:

Company name	Place and date of incorporation/ establishment	Issued and fully paid up capital/ registered capital	Attributable equity interest %	Principal activities and place of operations
Shares held directly:				
Eagle Up Holdings Limited ("Eagle Up")	British Virgin Islands 8 January 2003	100 ordinary shares of US$1 each	100	Investment holding in Hong Kong
Shares held indirectly:				
Espco Technology Limited ("Espco Technology")	Hong Kong 25 February 2000	1,000,000 ordinary shares of HK$0.1 each	100	Trading and distribution of desktop PC components in Hong Kong
易盈電腦(深圳)有限公司 ("Espco Shenzhen")	The People's Republic of China 30 April 1993	Registered and paid-up capital of US$3,430,733 (2005: US$2,633,333)	100	Manufacturing of desktop PC components in the Peoples' Republic of China
Espco Computer (S) Pte Limited ("Espco Singapore")	The Republic of Singapore 7 June 1996	50,000 ordinary shares of US$1 each	100	Trading and distribution of desktop PC components in Singapore
SPI Distribution Macao Commercial Offshore Limited ("Espco Macau")	Macau 25 February 2003	Registered capital of MOP1,000,000	100	Trading and distribution of desktop PC components in Macau

(b) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. The directors consider that the carrying amount of the balances approximates their fair value.

19 INVENTORIES

	2006 *HK$'000*	2005 *HK$'000*
Raw materials	**11,043**	7,145
Finished goods	**9,629**	6,190
	20,672	13,335

Inventories consisted of desktop PC components. At 31 March 2006, the carrying amount of inventories that were carried at net realisable value amounted to approximately HK$1,745,000 (2005: HK$4,968,000).

20 TRADE AND OTHER RECEIVABLES

	2006 *HK$'000*	2005 *HK$'000*
Trade receivables	**45,585**	53,792
Deposits and prepayments	**410**	365
	45,995	54,157
Amounts due within one year included in current assets	**(43,543)**	(54,157)
	2,452	–

The credit terms granted by the Group to its customers normally ranged from COD (cash-on-delivery) to 60 days. The aged analysis of the Group's trade receivables is as follows:

	2006 *HK$'000*	2005 *HK$'000*
0 – 30 days	**20,410**	26,656
31 – 60 days	**11,481**	18,377
61 – 90 days	**6,638**	1,464
Over 90 days	**7,056**	7,295
	45,585	53,792

The Group's credit policy is set out in note 30.

21 BANK BALANCES AND CASH

As at 31 March 2006, approximately HK$189,000 (2005: HK$104,000) of the Group's bank balances and cash were denominated in Renminbi, a currency which is subject to exchange control restrictions imposed by the Government of the People's Republic of China.

22 TRADE AND OTHER PAYABLES

	2006	2005
	HK$'000	*HK$'000*
Trade payables	**15,521**	15,608
Other payables and accruals	**2,114**	2,515
	17,635	18,123

All trade and other payables are expected to be settled within one year.

The following is an aged analysis of trade payables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
0 – 30 days	**5,682**	9,292
31 – 60 days	**3,830**	1,820
61 – 90 days	**3,487**	2,745
Over 90 days	**2,522**	1,751
	15,521	15,608

23 AMOUNTS DUE TO DIRECTORS

The amounts were unsecured, interest-free and had been settled during the year ended 31 March 2006.

24 INTEREST-BEARING BORROWINGS

	2006 HK$'000	2005 HK$'000
Trust receipt loans *(note)*	**3,218**	3,922
Bank loans *(note)*:		
– Secured	**4,758**	–
– Unsecured	**479**	1,400
	8,455	5,322
Amount due within one year included in current liabilities	**(5,328)**	(4,845)
Amount due after one year	**3,127**	477

Notes:

The Group's trust receipt loans and bank loans were repayable as follows:

	2006 HK$'000	2005 HK$'000
On demand or within one year	**5,328**	4,845
In the second year	**1,631**	477
In the third to fifth year, inclusive	**1,496**	–
	8,455	5,322

The trust receipt loans and bank loans bear interest at prevailing market rates. Details of securities for the Group's banking facilities are set out in note 33 below.

The average effective interest rate of the bank loans is 6.2% (2005: 4.3%) per annum.

The carrying amounts of trust receipt loans and bank loans approximate to their fair value.

25 DEFERRED TAX

	Accelerated tax depreciation HK$'000	Revaluation of properties HK$'000	Others HK$'000	Total HK$'000
At 1 April 2004				
– as previously reported	83	788	(134)	737
– effect of adoption of HKAS 17	–	(446)	–	(446)
– as restated	83	342	(134)	291
Charge/(credit) to income for the year	(7)	130	4	127
Credit to equity for the year	–	(86)	–	(86)
At 31 March 2005, as restated	76	386	(130)	332
At 1 April 2005				
– as previously reported	76	830	(130)	776
– effect of adoption of HKAS 17	–	(444)	–	(444)
– as restated	76	386	(130)	332
Charge/(credit) to income for the year	(59)	18	24	(17)
Charge to equity for the year	–	373	–	373
Exchange realignment	–	23	–	23
At 31 March 2006	17	800	(106)	711

	2006 **HK$'000**	2005 HK$'000 (restated)
Deferred tax assets	**(183)**	(295)
Deferred tax liabilities	**894**	627
	711	332

25 DEFERRED TAX *(continued)*

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the conditions set out in HKAS 12. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2006	2005
	HK$'000	*HK$'000*
		(restated)
Deferred tax assets	**(200)**	(220)
Deferred tax liabilities	**911**	552
	711	332

At 31 March 2006, the Group has unused tax losses of approximately HK$1,677,000 (2005: HK$501,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profits streams. The unrecognised tax losses may be carried forward indefinitely.

26 SHARE CAPITAL

	Ordinary shares of HK$0.01 each	
	Number of shares	**Nominal value**
		HK$'000
Authorised:		
At 1 April 2004	35,000,000	350
Increase during the year ended 31 March 2005	465,000,000	4,650
At 31 March 2005 and 31 March 2006	500,000,000	5,000
Issued and fully paid:		
At 1 April 2004	1	–
Shares issued on reorganisation	99	–
Shares issued pursuant to the capitalisation issue	260,704,100	2,607
Placing of new shares	96,432,000	964
At 31 March 2005 and 31 March 2006	357,136,200	3,571

There was no movement in the Company's share capital for the year.

27 EMPLOYEE BENEFITS

(i) Defined contribution retirement plan

From 1 December 2000, the Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its Hong Kong employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions are subject to a cap of HK$1,000 per month and thereafter contributions are voluntary. The assets of the MPF Scheme are held separately from those of the Group in an independently-administered fund. The Group's contributions vest fully with the employees when contributed into the MPF Scheme.

The Group has arranged for its employees in Singapore to join the Central Provident Fund Scheme (the "CPF Scheme"), a defined contribution scheme managed by the Central Provident Fund Board. Under the CPF Scheme, the Group and its Singapore employees make monthly contributions of 13% and 20%, respectively, of the employees' earnings as defined by the Central Provident Fund Board.

Pursuant to the regulations in the PRC, the employees in the PRC are required to join the pension fund (養老保險基金) which is a defined contribution scheme operated by the local government for the benefit of retired employees. The Group is required to make monthly contributions to the scheme at a specified rate of the employee payroll to fund the retirement benefits of the employees.

The aggregate amount of the Group's contributions to the aforementioned retirement schemes for the year was approximately HK$304,000 (2005: HK$296,000). As at 31 March 2006, contributions totalling HK$37,000 (2005: HK$43,000) payable to the aforementioned retirement schemes are included in other payables. There was no forfeited contribution available to reduce the Group's employer contribution payable during the years ended 31 March 2005 and 2006.

Save as disclosed above, the Group has no other obligations to make payments in respect of retirement benefits of the employees.

(ii) Share option scheme

Pursuant to the written resolutions of the then sole shareholder of the Company dated 6 September 2004, the Company has approved and conditionally adopted a share option scheme (the "Scheme"). The Scheme became effective on 23 September 2004 and shall be valid and effective for a period of ten years from that date, subject to early termination by the Company in general meeting or by the Board.

27 EMPLOYEE BENEFITS *(continued)*

(ii) Share option scheme *(continued)*

The purpose of the Scheme is to reward persons who have contributed to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group. Under the terms of the Scheme, the board of directors (the "Board") of the Company may, at their discretion, offer any employees, including any executive directors, non-executive directors and independent non-executive directors of the Group and certain consultants, suppliers or customers of the Group who, in the sole discretion of the Board, have contributed to the Group (the "Participants"), options to subscribe for ordinary shares of HK$0.01 each in the capital of the Company. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration of the grant.

The overall limit on the number of shares which may be issued upon exercise of all options to be granted and yet to be exercised under the Scheme and other share option schemes must not, in aggregate, exceed 30% of shares of the Company in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each Participant or grantee, including both exercised and outstanding options, in any 12-month period up to the date of grant must not exceed 1% of the shares in issue at the date of grant (the "Individual Limit"). Any further grant of options in excess of the Individual Limit must be subject to shareholders' approval with such Participant or grantee and his associates (as such term is defined in the GEM Listing Rules) abstaining from voting.

An option may be exercised in accordance with the terms of the Scheme at any time from the date of grant of the option to the date of expiry of the option as determined and notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant. The subscription price of the shares in respect of any particular option granted under the Scheme shall be such price as the Board in its absolute discretion shall determine and notify the Participant, save that such price will not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company's shares on the date of grant.

No option has been granted or agreed to be granted under the Scheme since its adoption and up to the date of this report.

28 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 30 of the financial statements.

Company	Share premium HK$'000 (Note (v))	Retained profits HK$'000	Total HK$'000
At 1 April 2004	–	–	–
Placing of shares	26,036	–	26,036
Placing and listing expenses	(7,457)	–	(7,457)
Capitalisation issue	(2,607)	–	(2,607)
Profit for the year	–	1,072	1,072
Dividends – 2005 interim	–	(1,071)	(1,071)
At 31 March 2005 and 1 April 2005	15,972	1	15,973
Profit for the year	–	6,824	6,824
Dividends – 2005 final	–	(3,214)	(3,214)
At 31 March 2006	15,972	3,611	19,583
Representing:			
Reserves			16,369
Proposed dividend			3,214
At 31 March 2006			19,583
Representing:			
Reserves			12,759
Proposed dividend			3,214
At 31 March 2005			15,973

28 RESERVES *(continued)*

Notes:

(i) In accordance with its articles of association and the relevant PRC laws and regulations, the Company's subsidiary in the PRC is required to set aside 10% of its annual net profit after taxation determined under PRC accounting regulations as the statutory surplus reserve until the reserve balance reaches 50% of the subsidiary's registered capital. The statutory surplus reserve can only be used for making up losses, capitalisation into capital and expansion of the subsidiary's production and operations.

(ii) In accordance with the relevant PRC laws and regulations, the Company's subsidiary in the PRC is required to appropriate 5% to 10% of its net profit after taxation determined under PRC accounting regulations as the statutory welfare fund. The fund can only be used to provide staff welfare facilities and other collective benefits to the subsidiary's employees. The fund is non-distributable other than in the event of liquidation.

(iii) In accordance with the relevant Macau laws and regulations, the Company's subsidiary in Macau is required to set aside not less than 25% of its annual net profit after taxation determined under Macau's accounting standards as the statutory general reserve until the reserve balance reaches 50% of the subsidiary's registered capital.

(iv) The capital reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of group reorganisation in 2004.

(v) Under section 34 of the Companies Law of the Cayman Islands, the share premium is available for distribution to shareholders subject to the provisions of the Articles of Association of the Company and no distribution may be paid to shareholders out of the share premium unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company shall be able to pay its debts as they fall due in the ordinary course of business.

The reserve available for distribution by the Company to the shareholders as at 31 March 2006 is approximately HK$3,611,000 (2005: HK$1,000).

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash from/(used in) operating activities

	2006 HK$'000	2005 HK$'000 (restated)
Profit before taxation	**8,629**	9,782
Adjustments for:		
Amortisation of land lease premium	**31**	30
Depreciation	**3,043**	3,141
Impairment losses recognised on trade and other receivables	**1,489**	–
Reversal of write-down of inventories	**(523)**	(400)
Surplus arising from revaluation of properties	**(316)**	(1,183)
Interest income	**(4)**	(1)
Interest on bank loans and overdrafts	**400**	154
Interest element of finance leases	**–**	53
	12,749	11,576
(Increase)/decrease in inventories	**(6,814)**	5,596
Decrease/(increase) in trade and other receivables	**6,673**	(17,679)
Decrease in trade and other payables	**(488)**	(7,990)
(Decrease)/increase in amounts due to directors	**(62)**	62
Cash from/(used in) operations	**12,058**	(8,435)

(b) Cash and cash equivalents

Cash and cash equivalents included in the consolidated cash flow statement comprise the following consolidated balance sheet amounts:

	2006 HK$'000	2005 HK$'000
Cash and bank balances	**15,647**	11,410

30 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

(i) Foreign exchange risk

The Group's monetary assets and transactions are principally denominated in Hong Kong Dollars ("HK$"), United States Dollars ("US$"), Singapore Dollars ("SGD") and Macau Paracs ("MOP"). The Group is exposed to foreign exchange risk arising from the exposure of HK$ against US$, SGD and MOP respectively. Considering that the exchange rate between HK$ and US$ is pegged and no material fluctuation for the exchange rate between HK$ and SGD and MOP among the year, the Group believes its exposure to exchange rate risk is minimal.

(ii) Interest rate risk

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

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Price risk

The Group has no significant concentration of price risk and commodity price risk. The extent of the Group's price risk exposure is represented by the change in equity securities price.

(iv) Credit risk

The extent of the Group's credit exposure is represented by the aggregate balance of cash in bank, trade and other receivables and deposits and prepayments. Cash transactions are limited to high-credit-quality institutions.

30 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iv) Credit risk (continued)

In respect of trade and other receivable, credit evaluations are performed on all customers requiring credit over a certain amount. These receivable are due within 0-60 days from the date of billing. Debtors with balances that are more than 6 months are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk as 21% (2005: 64%) and 61% (2005: 86%) of total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

(v) Liquidity risk

For the management of the Group's liquidity risk, the Group monitors and maintains a sufficient level of cash and cash equivalents to finance the Group's operations and mitigate the effects of fluctuation in cash flows. Management reviews and monitors its working capital requirements regularly.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, bank deposits, trade and other receivables; and financial liabilities including trade and other payables, bank loans, approximate their fair values due to their short maturities. The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

31 COMMITMENTS

(i) Capital commitments

	2006 HK$'000	2005 HK$'000
Authorised but not contracted for	–	10,000

(ii) Operating lease commitments

As at 31 March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2006 HK$'000	2005 HK$'000
Within one year	453	304
In the second to fifth year, inclusive	171	247
	624	551

Operating lease payments represent rentals payable by the Group for its office premises in Macau, a showroom in Singapore, and a director's quarter and a car parking space in Hong Kong. The leases are negotiated for terms of one to three years with fixed monthly rentals.

(iii) Apart from the above, the Group and the Company did not have any significant commitments as at 31 March 2006 and 2005.

32 CONTINGENT LIABILITIES

(i) As at 31 March 2006, eight (2005: seven) employees of the Group have completed the required number of years of service under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the circumstances specified in the Ordinance.

If the termination of all such employees meets the circumstances as set out in the Ordinance, the Group's liability as at 31 March 2006 would be approximately HK$576,000 (2005: HK$560,000). No provision has been made in this respect.

(ii) As at 31 March 2006, the Company has issued guarantees amounting to approximately HK$22,031,000 (2005: HK$14,000,000) to banks in respect of facilities granted to a subsidiary. The extent of the facilities utilised by the subsidiary as at 31 March 2006 amounted to HK$7,976,000 (2005: HK$3,922,000).

(iii) Save as disclosed above, the Group and the Company did not have any significant contingent liabilities as at 31 March 2006.

33 BANKING FACILITIES

As at 31 March 2006, the Group had aggregate banking facilities of approximately HK$23,431,000 (2005: HK$15,400,000). The extent of the banking facilities utilised by the Group as at 31 March 2006 amounted to approximately HK$8,455,000 (2005: HK$5,322,000), which were secured by the followings:

(i) fixed charges on certain of the Group's leasehold land and buildings located in Hong Kong with an aggregate net book value of approximately HK$3,500,000 (2005: HK$3,300,000);

(ii) fixed charges on certain plant and machinery located in PRC with an aggregate net book value of approximately HK$5,642,000; and

(iii) corporate guarantees executed by the Company.

34 RELATED PARTY TRANSACTIONS

Other than the amounts due to directors as disclosed in note 23, during the year, the Group entered into the following material related party transactions.

(a) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 14 and certain of the highest paid employees as disclosed in note 15 are as follows:

	2006	2005
	HK$'000	*HK$'000*
Short-term employee benefits	**2,833**	2,945
Post-employment benefits	**43**	48
	2,876	2,993

Total remuneration is included in staff costs including directors emoluments under the heading of "Operating profit" (note 8).

34 RELATED PARTY TRANSACTIONS *(continued)*

(b) The Group had the following significant related party transactions during the year:

	Note	2006 HK$	2005 HK$
Easely Investments Limited	*(i)*		
– Rentals of a director's quarter paid by the Group	*(ii)*	**354**	300

Notes:

(i) Easely Investments Limited ("Easely") is a company in which Mr. Chan Hing Yin, a director of the Company, has beneficial interest as a director and shareholder.

(ii) The former lease arrangement for leasing of a directors' quarter with Easely was expired on 31 October 2005 and the Group renewed the lease arrangement and the lease currently in force will expire on 31 October 2006 and the monthly rental payable by the Group under such lease is HK$33,000, which was determined by terms agreed by both parties with reference to open market value.

35 ACCOUNTING JUDGEMENT AND ESTIMATES

In the process of applying the Group's accounting policies, management has made judgments and estimates based on past experiences, expectation of the future and other information. The key sources of estimation uncertainty that may significantly affect the amounts recognised in the financial statements are disclosed below:

Estimated impairment on trade and other receivables

Management regularly reviews the recoverability and/or aging of trade and other receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in income statement when there is objective evidence that the asset is impaired.

In determining whether impairment loss is recognised, the Group takes into consideration the aging status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value.

Useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and machinery of similar nature and functions. The estimated useful lives reflect the management's estimate of the period that the Group intend to derive future economic benefits from the use of the Group's property, plant and equipment.

Financial Summary

RESULTS

	For the year ended 31 March				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
				(restated)	
Turnover	393,864	324,063	479,444	388,860	**402,429**
Cost of sales	(374,915)	(302,137)	(456,086)	(368,617)	**(379,359)**
Gross profit margin	4.8%	6.8%	4.9%	5.2%	**5.7%**
Gross profit	18,949	21,926	23,358	20,243	**23,070**
Other revenues	4,018	62	338	885	**391**
	22,967	21,988	23,696	21,128	**23,461**
Operating expenditure	(13,317)	(13,028)	(12,588)	(12,322)	**(14,748)**
Gain on disposal of an unconsolidated subsidiary	500	–	–	–	**–**
Surplus/(deficit) arising from revaluation of properties	(81)	(173)	200	1,183	**316**
Operating profit	10,069	8,787	11,308	9,989	**9,029**
Profit attributable to the shareholders	8,897	7,191	10,065	9,224	**8,513**
Dividend	2,400	1,500	3,500	4,285	**3,214**

ASSETS AND LIABILITIES

	As at 31 March				
	2002	2003	2004	2005	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
				(restated)	
Non-current assets	23,310	26,778	25,800	21,680	**30,884**
Current assets	67,346	44,418	64,387	78,932	**79,893**
Current liabilities	51,449	26,274	31,801	23,923	**24,009**
Net current assets	15,897	18,144	32,586	55,009	**55,884**
Non-current liabilities	4,189	3,334	3,898	1,029	**4,038**
Shareholders' funds	35,018	41,588	54,488	75,660	**82,730**

Notes:

(1) The Company was incorporated in the Cayman Islands on 12 March 2003 and became the holding company of the Group with effect from 6 September 2004.

(2) The results of the Group for the years ended 31 March 2002, 2003 and 2004 and its assets and liabilities as at 31 March 2002, 2003 and 2004 were extracted from the Company's prospectus dated 14 September 2004, which also set out the details of the basis of presentation of the combined accounts. The figures for years 2002, 2003 and 2004 are before any adjustments for the adoption of new Hong Kong Financial Reporting Standards which are effective for accounting periods beginning or after 1 January 2005. The results of the Group for the year ended 31 March 2005 and 2006 and its assets and liabilities as at 31 March 2005 and 2006 are set out on page 26 and 27 respectively, of this annual report and are presented on the basis set out in Note 1 to the consolidated financial statements.