



# ESPCO TECHNOLOGY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code : 8299)

8299

Annual Report 2006-07

## 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](http://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; and (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.*

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# Corporate Information

<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Head office and principal place of business</b>	Rooms 3 & 4 9th Floor, Vanta Industrial Centre 21-33 Tai Lin Pai Road Kwai Chung, New Territories Hong Kong
<b>Company homepage/website</b>	<a href="http://www.espcotech.com">http://www.espcotech.com</a>
<b>Company secretary</b>	Mr. Kwok Chi Shan, <i>FCCA, CPA</i>
<b>Qualified accountant</b>	Mr. Kwok Chi Shan, <i>FCCA, CPA</i>
<b>Compliance officer</b>	Mr. Chan Hing Yin
<b>Audit committee</b>	Mr. Cheung Wing Ping <i>(Chairman of Audit Committee)</i> Ms. Chan Yi Man, Magdalen Mr. Wong Ka Hung, Frederic
<b>Remuneration committee</b>	Ms. Chan Yi Man, Magdalen <i>(Chairman of Remuneration Committee)</i> Mr. Cheung Wing Ping Mr. Chan Hing Yin
<b>Authorised representatives</b>	Mr. Chan Hing Yin Mr. Kwok Chi Shan
<b>Process agent under Part XI of the Companies Ordinance</b>	Mr. Chan Hing Yin
<b>Stock code</b>	8299
<b>Principal bankers</b>	Bank of China (Hong Kong) Limited Chiyu Banking Corporation Limited Wing Lung Bank Limited
<b>Principal share registrar and transfer office</b>	Bank of Bermuda (Cayman) Limited P.O. Box 513 90 North Church Street Strathvale House, 2nd Floor Grand Cayman KY1-1106 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	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 2007.

## REVIEW OF OPERATIONS

During the year under review, there was a major change in the VGA Card market. "Nvidia" gradually became the mainstream product in the market. The keen competition from manufacturers in Taiwan led to a decrease in the Group's income and profit margin. The fluctuation in the prices of major components was still the Group's major challenge.

## FINANCIAL RESULTS

The Group recorded a total revenue of approximately HK\$320 million for the year ended 31 March 2007, representing a decrease of approximately 20.5% over the last year. Profit attributable to shareholders for the year ended 31 March 2007 amounted to approximately HK\$3.7 million, representing a decrease of approximately 56.8% when compared to that of last year.

## DIVIDEND

The Board recommended a final dividend of HK0.39 cent per share, which is subject to approval by the shareholders of the Company in the forthcoming annual general meeting.

## PROSPECTS

As the design of current chipset becomes more complicated, the design and production cycle of VGA card becomes longer. To cope with the changes, the Group is considering an increase in number of production lines so as to increase the production efficiency. Besides, processing service and brand name promotion are the Group's focuses in the coming year. The Group will put more effort in exploring new arising markets and expect a higher return under an acceptable risk.

## 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, 25 June 2007

# Review of Business Plan

## 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 2007 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 5th SMT production line in full operation. | Complete the installation of and put the 5th SMT production line in full operation in January 2006. |
| – Maintain the running of the SMT production line.                                    | Maintain the running of the SMT production line.  |

(ii) *To promote the Group's brandname "EAGLE"*

- |   |   |
|---|---|
| – Advertise the Group's products in magazines and send out souvenirs to potential customers at "CeBIT". | The Group periodically places advertisements in major computer magazines in Hong Kong, Europe and PRC. Souvenirs have been sent out to potential customers at "CeBIT 2007". |
| – 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 in "Computex 2006".  |
| – Participate in the technology exhibition "CeBIT" to be held in Germany.                               | Participate in "CeBIT 2007"   |

(iii) *To explore new markets and expand distribution network*

- |   |   |
|---|---|
| – Continue the distribution arrangements in the Eastern European markets.   | The Board puts the establishment of an office in Eastern Europe as the Group's long-range target. |
| – Review the performance of the distribution arrangement in the Eastern European markets and adjust the sales and marketing strategies accordingly. | Explain as above.   |

## Review of Business Plan

(iv) *To expand the research and development capability*

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>– Review periodically the staffing requirement of the Group's research and development team.</li> </ul>   | <p>The Group is looking for appropriate technical staff to enforce its research and development team.</p>           |
| <ul style="list-style-type: none"> <li>– Develop new models of VGA display card and motherboard in order to cope with the latest development of CPU and requirements in visual display.</li> </ul> | <p>During the year, the Group successfully developed a series of products with "8" series of Nvidia chipset.</p>    |
| <ul style="list-style-type: none"> <li>– Review periodically the existing products and initiate projects to improve their functionalities and reduce production cost.</li> </ul>                   | <p>A team of technicians continuously reviews and initiates projects of product development and cost reduction.</p> |

### 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 2007, the Company had incurred the following amount to achieve its business objectives as set out in the Prospectus:

	<b>From the date of listing on GEM on 23 September 2004 to 31 March 2007</b>	
	<b>Proposed HK\$'000</b>	<b>Actual HK\$'000</b>
To upgrade the production facilities	10,000	8,373
To promote the Group's brandname "EAGLE"	2,000	1,338
To explore new markets and expand distribution network	1,000	233
To expand research and development capabilities	500	22
General working capital	6,000	6,000
	19,500	15,966

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\$320 million and profit attributable to shareholders of approximately HK\$3.7 million for the year ended 31 March 2007, representing a decrease of approximately 20.5% and 56.8% when compared to that of last year. Basic earnings per share for the year is approximately HK1.03 cents. The decrease in total revenue was mainly attributable to the delay in upgrading plan of PC users. The Group's overall gross profit margin for the year was approximately 5.7% which is similar to that of last year. Since the proportion of overseas customers increased, the selling and distribution expenses for the year increased by approximately 40%. With the increase in using banking facilities during the year, the finance costs for the year increased by approximately 58%.

## 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				Increase/ (decrease) (%)
	2007		2006		
	Revenue HK\$'000	Portion	Revenue HK\$'000	Portion	
Sales of own manufactured goods	249,044	78%	313,429	78%	(20%)
Trading of PC components	48,572	15%	55,563	14%	(13%)
Processing fee income	17,495	5%	33,437	8%	(48%)
Handling income	4,955	2%	—	—	100%
Total	320,066	100%	402,429	100%	(20%)

## BUSINESS REVIEW

During the third quarter of the year under review, many PC users were expecting new computer operating system and delayed their upgrading plan. It led to a decrease of the Group's sales of own manufactured goods. In response to the market's demand, the Group launched the products with the "8" series of Nvidia chipset in the fourth quarter of the year under review. In addition, the Group received processing orders from two new customers during the year and it brought a stable stream of income to the Group.

## 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 2007, the Group had net current assets of approximately HK\$59,488,000 (2006: HK\$55,884,000) of which approximately HK\$11,891,000 (2006: HK\$15,647,000) was cash and bank balances while current portion of interest-bearing borrowings was approximately HK\$13,455,000 (2006: HK\$5,328,000). As at 31 March 2007, the Group had total banking facilities of approximately HK\$26,380,000 (2006: HK\$23,431,000), approximately HK\$14,869,000 (2006: 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\$4,590,000 (2006: HK\$3,500,000) and machinery with an aggregate net book value of HK\$5,407,000 (2006: HK\$5,642,000) and by corporate guarantees executed by the Company.





# Management Discussion and Analysis

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 2007, 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 2007, 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\$12,997,000 (2006: HK\$11,570,000) including Directors’ emoluments of approximately HK\$1,787,000 (2006: HK\$1,586,000) for the year ended 31 March 2007. As at 31 March 2007, the Group employed 489 (2006: 488) employees in the PRC, Hong Kong, Singapore and Macau.

## MATERIAL ACQUISITIONS AND DISPOSALS

During the year ended 31 March 2007, the Group did not have any material acquisitions and disposals of subsidiaries.

## GEARING RATIO

The Group’s gearing ratio as at 31 March 2007 increased to 17.5% from 10.2% as at 31 March 2006. 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 increase in import loans.

## CHARGES ON THE GROUP’S ASSETS

As at 31 March 2007, the Group’s leasehold land and buildings with net book value of approximately HK\$4,590,000 (2006: HK\$3,500,000) and machinery with net book value of approximately HK\$5,407,000 (2006: HK\$5,642,000) 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 31 to the financial statements, as at 31 March 2007, the Directors were not aware of any material contingent liabilities.

# Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Chan Hing Yin**, aged 52, 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 23 years of experience in the PC industry. He is also the Compliance Officer of the Company.

**Mr. Chan Hing Kai**, aged 39, 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 11 years of experience in the PC industry and joined the Group in 1996.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Chan Yi Man, Magdalen**, aged 50, 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.

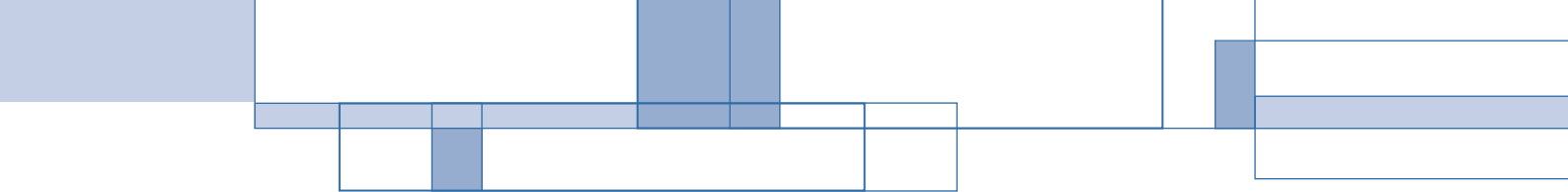
**Mr. Cheung Wing Ping**, aged 40, is an accounting manager of an investment holding company and has over 15 years of experience in auditing and accounting fields. He holds a bachelor's degree in Accountancy with honours from City University of Hong Kong and is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

**Mr. Wong Ka Hung, Frederic**, aged 37, is the manager of code of practice of an overseas company and has over 12 years of experience in respect of environmental health and safety in different industries. He is a member of The Institute of Occupational Safety and Health in United Kingdom and a registered Safety Officer thereof in Hong Kong. He holds a bachelor's degree of engineering in Chemical Engineering from the University of Leeds, a master's degree of philosophy in Chemical Engineering from The Hong Kong University of Science & Technology and a master's degree of Business Administration from The Chinese University of Hong Kong.

## SENIOR MANAGEMENT

**Mr. Wo Wai Shing**, aged 42, 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 18 years of experience in computer engineering. He joined the Group in April 1999.

**Mr. Kwok Chi Shan**, aged 44, 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 16 years of experience in auditing and finance fields and joined the Group in December 2005.



## Directors and Senior Management

**Mr. Chan Kit Hung**, aged 48, 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 17 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 2007 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 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 2007.

## BOARD OF DIRECTORS

The Directors who held office during the year and up to 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 (resigned on 3 July 2006)

Mr. Tam Yuk Sang, Sammy (retired on 23 September 2006)

Ms. Chan Yi Man, Magdalen

Mr. Cheung Wing Ping (appointed on 27 July 2006)

Mr. Wong Ka Hung, Frederic (appointed on 18 September 2006)

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 with the Company. In determining the independence of directors, the Board follows the requirements set out in the GEM Listing Rules. 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.

# Corporate Governance Report

During the year ended 31 March 2007, six 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	6/6
Mr. Chan Hing Kai	5/6
Mr. Lam Ping Cheung	0/1
Mr. Tam Yuk Sang, Sammy	3/3
Ms. Chan Yi Man, Magdalen	5/6
Mr. Cheung Wing Ping	4/4
Mr. Wong Ka Hung, Frederic	1/3

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 2007, 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

Ms. Chan Yi Man, Magdalen has entered into a service contract with the Company for a fixed term of two years commencing from 23 September 2006 subject to retirement of rotation and re-election in accordance with the provisions of the Articles of Association of the Company.

Mr. Cheung Wing Ping has entered into a service contract with the Company for a fixed term of two years commencing from 27 July 2006 subject to retirement of rotation and re-election in accordance with the provisions of the Articles of Association of the Company.

Mr. Wong Ka Hung, Frederic has entered into a service contract with the Company for a fixed term of two years commencing from 18 September 2006 subject to retirement of rotation and re-election in accordance with the provisions of the Articles of Association of the Company.

# Corporate Governance Report

## 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. Members of the Remuneration Committee during the year and up to the date of this report were:

### *Independent Non-Executive Directors:*

Ms. Chan Yi Man, Magdalen	(Chairman of Remuneration Committee)
Mr. Tam Yuk Sang, Sammy	(retired on 23 September 2006)
Mr. Cheung Wing Ping	(appointed on 27 July 2006)

### *Executive Director:*

Mr. Chan Hing Yin

During the year ended 31 March 2007, the Remuneration Committee held two meetings and individual attendance of members of the Remuneration Committee are set out as follows:

<b>Name of Member</b>	<b>Attended/Eligible to attend</b>
Ms. Chan Yi Man, Magdalen	2/2
Mr. Tam Yuk Sang, Sammy	0/0
Mr. Cheung Wing Ping	2/2
Mr. Chan Hing Yin	2/2

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

- (i) reviewed and approved the remuneration package of an executive Director; and
- (ii) reviewed and approved the remuneration of senior management.

# Corporate Governance Report

## 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. 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 2007, Mr. Cheung Wing Ping was appointed to fill a casual vacancy on the Board and Mr. Wong Ka Hung, Frederic was appointed as an addition to the Board.

## INDEPENDENT AUDITOR'S REMUNERATION

During the year ended 31 March 2007, remuneration payable to the Company's independent auditor, 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	450
Non-audit services	3
	<hr/>
	453

## 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 independent auditors. The Audit Committee currently comprises all independent non-executive Directors, namely:

Mr. Cheung Wing Ping ( <i>Chairman of Audit Committee</i> )	(appointed on 27 July 2006)
Ms. Chan Yi Man, Magdalen	
Mr. Wong Ka Hung, Frederic	(appointed on 18 September 2006)
Mr. Tam Yuk Sang, Sammy	(retired on 23 September 2006)
Mr. Lam Ping Cheung	(resigned on 3 July 2006)

Mr. Cheung Wing Ping possesses the appropriate accounting professional qualification as required under rule 5.28 of the GEM Listing Rules.

# Corporate Governance Report

During the year ended 31 March 2007, the Audit Committee held four meetings and individual attendance of members of the Audit Committee are set out as follows:

<b>Name of Member</b>	<b>Attended/Eligible to attend</b>
Mr. Cheung Wing Ping	3/3
Ms. Chan Yi Man, Magdalen	3/4
Mr. Wong Ka Hung, Frederic	1/2
Mr. Tam Yuk Sang, Sammy	2/2
Mr. Lam Ping Cheung	0/1

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;

## 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 independent auditor about their reporting responsibilities in the independent auditor's report on the Group's financial statements is set out on page 22 to page 23.





# 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 2007.

## PRINCIPAL ACTIVITIES

The principal activities of the Company during the year was investment holding and those of its subsidiaries are set out in note 17 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 24 to 27.

A final dividend of HK0.9 cent per share in respect of the year ended 31 March 2006 was paid on 3 August 2006. The Directors recommended the payment of a final dividend of HK0.39 cent per share in respect of the year ended 31 March 2007 to the shareholders whose names appear on the register of members on 26 July 2007. Total dividend declared for the year ended 31 March 2007 amounted to approximately HK\$1,393,000.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 25 to the financial statements.

## RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 27 to the financial statements and in the consolidated statement of changes in equity on page 28 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 pages 67 and 68.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 55% of the total revenue and sales to the largest customer included therein accounted for approximately 17% of the Group's total revenue. Purchases from the Group's five largest suppliers accounted for approximately 49% of the total purchases for the year and purchases from the largest supplier included therein accounted for approximately 29%.

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.

# Report of the Board of Directors

## 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 26 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 (resigned on 3 July 2006)

Mr. Tam Yuk Sang, Sammy (retired on 23 September 2006)

Ms. Chan Yi Man, Magdalen

Mr. Cheung Wing Ping (appointed on 27 July 2006)

Mr. Wong Ka Hung, Frederic (appointed on 18 September 2006)

In accordance with Article 87 of the Company's Articles of Association, Mr. Chan Hing Yin and Ms. Chan Yi Man, Magdalen shall retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. In accordance with Article 86 of the Company's Articles of Association, Mr. Cheung Wing Ping and Mr. Wong Ka Hung, Frederic shall retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. All other directors of the Company continue in office.

Each of the independent non-executive Directors 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.



# Report of the Board of Directors

## DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on page 9 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.

Ms. Chan Yi Man, Magdalen has entered into a service contract with the Company for a fixed term of two years commencing from 23 September 2006, unless and until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Cheung Wing Ping has entered into a service contract with the Company for a fixed term of two years commencing from 27 July 2006, unless and until terminated by not less than three months' notice in writing served by either party on the other.

Mr. Wong Ka Hung, Frederic has entered into a service contract with the Company for a fixed term of two years commencing from 18 September 2006, 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 33 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 33 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 13 and 14 to the financial statements respectively.

# Report of the Board of Directors

## 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 2007, 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 2007, 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 2007, 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.

# Report of the Board of Directors

## 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 2007.

## SUBSTANTIAL SHAREHOLDER

So far as is known to any Director or chief executive of the Company, as at 31 March 2007, 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 2007, 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.



# Report of the Board of Directors

## 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 Mega Capital (Asia) Co., Ltd. (formerly known as Barits Securities (Hong Kong) Limited) ("Mega Capital"), Mega Capital 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 Mega Capital, 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 2007.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 March 2007, 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 2007 to 26 July 2007, 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 23 July 2007.

## INDEPENDENT AUDITOR

A resolution to re-appoint the retiring independent auditor, 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  
25 June 2007

# Independent Auditor's Report



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

## TO THE SHAREHOLDERS OF ESPCO TECHNOLOGY HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Espco Technology Holdings Limited set out on pages 24 to 66, which comprise the consolidated and Company balance sheet as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

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

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

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



# Independent Auditor's Report

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Graham H.Y. Chan & Co.**

*Certified Public Accountants (Practising)*

Unit 1, 15/F, The Center,  
99 Queen's Road Central,  
Hong Kong

25 June 2007



# Consolidated Income Statement

For The Year Ended 31 March 2007

	Note	2007 HK\$'000	2006 HK\$'000
Revenue	4	320,066	402,429
Cost of sales		(301,923)	(379,359)
Gross profit		18,143	23,070
Other income	6	643	391
Selling and distribution expenses		(927)	(659)
Administrative expenses		(14,584)	(14,089)
Surplus arising from revaluation of properties		627	316
Finance costs	7	(634)	(400)
Profit before taxation	8	3,268	8,629
Taxation	9	413	(116)
Profit attributable to the shareholders	10	3,681	8,513
Dividends	11	1,393	3,214
		HK Cents	HK Cents
Earnings per share	12		
Basic		1.03	2.38

# Consolidated Balance Sheet

As At 31 March 2007

	Note	2007 HK\$'000	2006 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	15	26,990	26,787
Prepaid land lease premium	16	1,477	1,445
Trade and other receivables	19	–	2,452
Deferred tax assets	24	335	200
		28,802	30,884
<b>Current assets</b>			
Prepaid land lease premium	16	31	31
Inventories	18	25,957	20,672
Trade and other receivables	19	65,037	43,543
Tax recoverable		193	–
Bank balances and cash	20	11,891	15,647
		103,109	79,893
<b>Current liabilities</b>			
Trade and other payables	21	29,984	17,635
Interest-bearing borrowings – due within one year	22	13,455	5,328
Tax payable		182	1,046
		43,621	24,009
<b>Net current assets</b>		59,488	55,884
<b>Total assets less current liabilities</b>		88,290	86,768
<b>Non-current liabilities</b>			
Interest-bearing borrowings – due after one year	22	1,551	3,127
Deferred tax liabilities	24	1,037	911
		2,588	4,038
<b>Net assets</b>		85,702	82,730

# Consolidated Balance Sheet

As At 31 March 2007

	<i>Note</i>	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
<b>Capital and reserves</b>			
Share capital	25	<b>3,571</b>	3,571
Reserves		<b>82,131</b>	79,159
Total equity attributable to equity shareholders of the Company		<b>85,702</b>	82,730

The financial statements on pages 24 to 66 were approved and authorised for issue by the board of directors on 25 June 2007 and are signed on its behalf by:

**Chan Hing Yin**  
*Director*

**Chan Hing Kai**  
*Director*

# Balance Sheet

As At 31 March 2007

	Note	2007 HK\$'000	2006 HK\$'000
<b>Non-current assets</b>			
Investments in subsidiaries	17	21,683	23,153
<b>Current assets</b>			
Deposits and prepayments		94	93
Bank balance and cash		3	3
		97	96
<b>Current liabilities</b>			
Other payables and accruals		358	95
<b>Net current (liabilities)/assets</b>			
		(261)	1
<b>Net assets</b>			
		21,422	23,154
<b>Capital and reserves</b>			
Share capital	25	3,571	3,571
Reserves	27	17,851	19,583
		21,422	23,154

Chan Hing Yin  
Director

Chan Hing Kai  
Director

# Consolidated Statement Of Changes In Equity

For The Year Ended 31 March 2007

	Issued share capital HK\$'000	Share premium HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000 (note 27(iv))	Revaluation reserve HK\$'000	Statutory surplus reserve HK\$'000 (note 27(i))	Statutory welfare fund HK\$'000 (note 27(ii))	Statutory general reserve HK\$'000 (note 27(iii))	Retained profits HK\$'000	Total HK\$'000
<b>At 1 April 2005</b>	3,571	18,972	4	13,463	4,766	325	162	485	33,912	75,660
<b>Change in equity for 2006</b>										
Surplus arising from revaluation of properties	-	-	-	-	2,254	-	-	-	-	2,254
Deferred tax charge arising from revaluation of properties (Note 24)	-	-	-	-	(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
Total recognised income and expense for the year	-	-	(63)	-	1,834	-	-	-	8,513	10,284
Dividends – 2005 final	-	-	-	-	-	-	-	-	(3,214)	(3,214)
<b>At 31 March 2006</b>	3,571	18,972	(59)	13,463	6,600	325	162	485	39,211	82,730
<b>At 1 April 2006</b>	3,571	18,972	(59)	13,463	6,600	325	162	485	39,211	82,730
<b>Change in equity for 2007</b>										
Surplus arising from revaluation of properties	-	-	-	-	1,671	-	-	-	-	1,671
Deferred tax charge arising from revaluation of properties (Note 24)	-	-	-	-	(226)	-	-	-	-	(226)
Realised upon depreciation based on revalued amount of land and building	-	-	-	-	(4)	-	-	-	4	-
Exchange differences arising from translation of financial statements of overseas subsidiaries	-	-	1,353	-	(293)	-	-	-	-	1,060
Net income directly recognised in equity	-	-	1,353	-	1,148	-	-	-	4	2,505
Profit for the year	-	-	-	-	-	-	-	-	3,681	3,681
Total recognised income and expense for the year	-	-	1,353	-	1,148	-	-	-	3,685	6,186
Dividends – 2006 final	-	-	-	-	-	-	-	-	(3,214)	(3,214)
<b>At 31 March 2007</b>	3,571	18,972	1,294	13,463	7,748	325	162	485	39,682	85,702

# Consolidated Cash Flow Statement

For The Year Ended 31 March 2007

	Note	2007 HK\$'000	2006 HK\$'000
<b>Operating activities</b>	28(a)		
Cash (used in)/from operations		(4,972)	12,058
Interests on bank loans and overdrafts paid		(625)	(400)
Interest element of finance leases paid		(9)	–
Hong Kong profits tax paid		(1,411)	(89)
Hong Kong profits tax refunded		487	–
Overseas taxation paid		(2)	(51)
Overseas taxation refund		–	158
<b>Net cash (used in)/from operating activities</b>		<b>(6,532)</b>	11,676
<b>Investing activities</b>			
Purchases of property, plant and equipment		(1,021)	(7,003)
Interest received		67	4
<b>Net cash used in investing activities</b>		<b>(954)</b>	(6,999)
<b>Financing activities</b>			
New bank loans raised		1,475	4,893
Net increase/(decrease) in trust receipt loans		6,616	(704)
Bank loans repaid		(2,429)	(1,056)
Repayment of capital element of finance leases		(89)	–
Dividends paid		(3,214)	(3,214)
<b>Net cash from/(used in) financing activities</b>		<b>2,359</b>	(81)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(5,127)</b>	4,596
<b>Cash and cash equivalents at beginning of year</b>		<b>15,647</b>	11,410
<b>Effect of foreign exchange rate changes</b>		<b>596</b>	(359)
<b>Cash and cash equivalents at end of year</b>	28(b)	<b>11,116</b>	15,647

# Notes To The Financial Statements

## 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 shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 23 September 2004. 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.

The address of its 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 17 to the financial statements.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

## 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 standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>4</sup>
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment <sup>5</sup>
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasure Share Transactions <sup>6</sup>
HK(IFRIC)-Int 12	Service Concession Arrangements <sup>7</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 May 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1 November 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2008.

# Notes To The Financial Statements

## 3 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 34.

### (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.



# Notes To The Financial Statements

## 3 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.

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, fixture and office equipment	20%
Leasehold improvement	20%
Motor vehicles	20%

# Notes To The Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Property, plant and equipment *(Continued)*

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 3(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.

Land lease prepayments under operating leases are up-front payments to acquire long-term interests in lessee-occupied properties. Land lease prepayment 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 to the sale.

# Notes To The Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (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 payables 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.

#### (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.

#### (vi) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

# Notes To The Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (f) Financial instruments (Continued)

#### (vi) Financial guarantees issued (Continued)

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 3(j) and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

### (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.



# Notes To The Financial Statements

## 3 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 company 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.

# Notes To The Financial Statements

## 3 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 assets 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.

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.



## Notes To The Financial Statements

### 3 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

#### (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.

##### (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.

# Notes To The Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (k) Translation of foreign currencies *(Continued)*

#### *(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.

#### (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);



# Notes To The Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES (*Continued*)

### (m) Related parties (*Continued*)

- (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.

### (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 and handling 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.

# Notes To The Financial Statements

## 4 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:

	2007 HK\$'000	2006 HK\$'000
Sale of own-manufactured goods at invoiced value, net of returns and discounts	249,044	313,429
Trading of PC components	48,572	55,563
Processing fee income	17,495	33,437
Handling income	4,955	–
	<hr/> <b>320,066</b>	<hr/> 402,429

## 5 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 2006 and 2007.

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.

# Notes To The Financial Statements

## 5 SEGMENTAL INFORMATION (Continued)

	2007 HK\$'000	2006 HK\$'000
Segment revenue by location of customers		
PRC, excluding Hong Kong and Taiwan	143,333	267,727
Taiwan	14,354	15,288
Hong Kong	69,850	61,476
Singapore	16,453	20,508
Australia	4,234	5,893
Other Asia-Pacific regions	49,383	26,694
Europe	11,655	3,510
Other regions	10,804	1,333
	<b>320,066</b>	<b>402,429</b>
Segment assets by location of assets		
PRC, excluding Hong Kong and Macau	23,312	24,153
Hong Kong	63,923	49,045
Singapore	11,167	9,421
Macau	33,509	28,158
	<b>131,911</b>	<b>110,777</b>
Capital expenditures by location of assets		
PRC, excluding Hong Kong and Macau	832	6,972
Hong Kong	186	29
Singapore	203	2
Macau	3	–
	<b>1,224</b>	<b>7,003</b>

## 6 OTHER INCOME

	2007 HK\$'000	2006 HK\$'000
Interest income	67	4
Advertising rebate	–	322
Sundry income	576	65
	<b>643</b>	<b>391</b>

# Notes To The Financial Statements

## 7 FINANCE COSTS

	2007 HK\$'000	2006 HK\$'000
Interest on bank loans and overdrafts	625	400
Finance lease charges	9	–
	<b>634</b>	<b>400</b>

## 8 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	2007 HK\$'000	2006 HK\$'000
Cost of inventories sold ( <i>note (i)</i> )	301,775	379,882
Auditors' remuneration ( <i>note (v)</i> )	502	429
Amortisation of land lease premium ( <i>note (ii)</i> )	32	31
Depreciation ( <i>note (ii)</i> )		
– owned assets	3,727	3,043
– leased assets	39	–
Operating lease rentals in respect of land and buildings ( <i>note (iii)</i> )	595	538
(Reversal of impairment loss)/impairment loss recognised in respect of trade and other receivables	(10)	1,489
Legal and professional fees	874	1,060
Research and development cost ( <i>note (iv)</i> )	1,029	1,015
Staff costs including directors' emoluments ( <i>note (v)</i> )		
– salaries, wages, allowances and benefits in kind ( <i>note (ii)</i> )	12,665	11,266
– retirement benefits scheme contributions ( <i>note 26(i)</i> )	332	304
– staff messing and welfare	1,005	1,126

Notes:

- (i) Cost of inventories sold on the face of the consolidated income statement includes write-down of inventories of HK\$148,000 (2006: reversal of write-down of inventories HK\$523,000).

# Notes To The Financial Statements

## 8 PROFIT BEFORE TAXATION (Continued)

Notes: (Continued)

- (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:

	2007 HK\$'000	2006 HK\$'000
Amortisation of land lease premium	32	31
Depreciation	3,197	2,519
Staff costs — salaries, wages, allowances and benefits in kind	4,521	4,457

- (iii) Included in the operating lease rentals in respect of land and buildings are rentals paid for the directors' quarters of HK\$388,000 (2006: HK\$354,000) which had also been included in staff costs disclosed above.

- (iv) Included in the research and development costs are staff costs of HK\$1,029,000 (2006: HK\$1,015,000) which had also been included in staff costs disclosed above.

- (v) Except for the amounts mentioned in notes (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 TAXATION

	2007 HK\$'000	2006 HK\$'000
Current tax:		
Hong Kong profits tax		
– provision for current year	–	257
– over-provision for previous years	(162)	–
Overseas taxation		
– provision for current year	23	36
– over-provision for previous years	–	(160)
	(139)	133
Deferred tax (note 24)		
– current year	(274)	(55)
– under-provision for previous years	–	38
	(274)	(17)
Taxation (credit)/charge	(413)	116

# Notes To The Financial Statements

## 9 TAXATION (Continued)

No provision for Hong Kong profits tax has been made in the financial statement as the Group has no assessable profits for the year. For the year ended 31 March 2006. Hong Kong profits tax has been provided in the financial statements at the rate of 17.5% on the estimated assessable profits arising in or derived from Hong Kong for that year.

Overseas taxation represents tax charges on the estimated assessable profits of subsidiaries operating overseas including Singapore and 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 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.

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:

	2007 HK\$'000	2006 HK\$'000
Profit before taxation	<b>3,268</b>	8,629
Tax at the applicable tax rate in Hong Kong	<b>572</b>	1,510
Tax effect of non-deductible expenses	<b>233</b>	178
Tax effect of non-taxable income	<b>(56)</b>	(99)
Tax exemption granted to overseas subsidiaries	<b>(1,642)</b>	(1,359)
Effect of different tax rates of subsidiaries		
operating in other jurisdictions	<b>96</b>	3
Deferred tax assets not recognised	<b>546</b>	5
Over-provision in previous years	<b>(162)</b>	(122)
Taxation (credit)/charge for the year	<b>(413)</b>	116

## 10 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group’s profit attributable to the shareholders of HK\$3,681,000 (2006: HK\$8,513,000), a profit of HK\$1,482,000 (2006: HK\$6,824,000) has been dealt with in the Company’s own financial statements.

# Notes To The Financial Statements

## 11 DIVIDEND

	2007 HK\$'000	2006 HK\$'000
Final, proposed, of HK0.39 cent in respect of 2007 (2006: HK0.9 cent) per ordinary share	<u>1,393</u>	3,214

The 2007 final dividends of HK0.39 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.

## 12 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\$3,681,000 (2006: HK\$8,513,000), and the weighted average number of 357,136,200 (2006: 357,136,200) 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.

## 13 DIRECTORS' EMOLUMENTS

An analysis of remuneration paid and payable to directors of the Company for the year ended 31 March 2007 and 2006 are set as follows:

	Directors' fee HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contribution HK\$'000	2007 Total HK\$'000
Executive directors				
Chan Hing Yin	–	976	12	988
Chan Hing Kai	–	615	6	621
Independent non-executive directors				
Lam Ping Cheung (resigned on 3 July 2006)	25	–	–	25
Tam Yuk Sang, Sammy (retired on 23 September 2006)	48	–	–	48
Chan Yi Man, Magdalen	50	–	–	50
Cheung Wing Ping (appointed on 27 July 2006)	34	–	–	34
Wong Ka Hung, Frederic (appointed on 18 September 2006)	27	–	–	27
	<u>184</u>	<u>1,591</u>	<u>18</u>	<u>1,793</u>

# Notes To The Financial Statements

## 13 DIRECTORS' EMOLUMENTS (Continued)

	Directors' fee HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contribution HK\$'000	2006 Total 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
	<u>250</u>	<u>1,324</u>	<u>12</u>	<u>1,586</u>

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 2007 and 2006.

## 14 EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments, two (2006: two) are directors whose emoluments are disclosed in note 13. The aggregate of the emoluments in respect of the other three (2006: three) individuals whose emoluments fell within the band of nil to HK\$1,000,000 are as follows:

	2007 HK\$'000	2006 HK\$'000
Basic salaries, allowances and benefits in kind	<b>1,534</b>	1,259
Retirement benefits scheme contributions	<b>36</b>	31
	<u><b>1,570</b></u>	<u>1,290</u>

During the years ended 31 March 2007 and 2006, 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.



# Notes To The Financial Statements

## 15 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 improvement HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1 April 2005	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
At 1 April 2006	3,900	6,100	25,786	759	3,941	1,638	42,124
Additions	–	–	471	145	405	203	1,224
Disposal	–	–	–	–	–	(190)	(190)
Adjustment on revaluation	1,090	200	–	–	–	–	1,290
Currency realignment	–	–	750	11	159	11	931
At 31 March 2007	4,990	6,300	27,007	915	4,505	1,662	45,379
Representing:							
Cost	–	–	27,007	915	4,505	1,662	34,089
At 2007 valuation	4,990	6,300	–	–	–	–	11,290
	4,990	6,300	27,007	915	4,505	1,662	45,379
Accumulated depreciation							
At 1 April 2005	–	–	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
At 1 April 2006	–	–	10,322	568	3,048	1,399	15,337
Charge for the year	122	886	1,760	105	615	278	3,766
Elimination on disposal	–	–	–	–	–	(190)	(190)
Elimination on revaluation	(122)	(886)	–	–	–	–	(1,008)
Currency realignment	–	–	326	8	138	12	484
At 31 March 2007	–	–	12,408	681	3,801	1,499	18,389
Net book value							
At 31 March 2007	4,990	6,300	14,599	234	704	163	26,990
At 31 March 2006	3,900	6,100	15,464	191	893	239	26,787

# Notes To The Financial Statements

## 15 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 2007, certain of the Group's land and buildings in Hong Kong with an aggregate net book value of approximately HK\$4,590,000 (2006: HK\$3,500,000) have been pledged to secure general banking facilities granted to the Group (note 32).

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 2007. As a result of the revaluation, a revaluation surplus of approximately HK\$2,298,000 (2006: HK\$2,570,000) was recognised, of which HK\$627,000 (2006: HK\$316,000) has been credited to the consolidated income statement and HK\$1,671,000 (2006: 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:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Buildings in the PRC excluding Hong Kong	<b>545</b>	610
Leasehold land and buildings in Hong Kong	<b>3,965</b>	4,093
	<b>4,510</b>	4,703

The carrying amount of the Group's motor vehicles included an amount of HK\$163,000 (2006: nil) in respect of assets held under finance lease.

# Notes To The Financial Statements

## 16 PREPAID LAND LEASE PREMIUM

	The Group HK\$'000
Cost	
At 1 April 2005	1,520
Currency realignment	40
	<hr/>
At 31 March 2006	1,560
	<hr/>
At 1 April 2006	1,560
Currency realignment	68
	<hr/>
At 31 March 2007	1,628
	<hr/>
Accumulated amortisation	
At 1 April 2005	51
Provided for the year	31
Exchange realignment	2
	<hr/>
At 31 March 2006	84
	<hr/>
At 1 April 2006	84
Provided for the year	32
Exchange realignment	4
	<hr/>
At 31 March 2007	120
	<hr/>
Net book value	
At 31 March 2007	1,508
	<hr/>
At 31 March 2006	1,476
	<hr/>

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

# Notes To The Financial Statements

## 16 PREPAID LAND LEASE PREMIUM (*Continued*)

Analysed for reporting purposes as:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Current asset	<b>31</b>	31
Non-current asset	<b>1,477</b>	1,445
	<b>1,508</b>	1,476

The land leases are 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 leases was determined with reference to a qualified external valuer's valuation.

## 17 INVESTMENTS IN SUBSIDIARIES — COMPANY

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	—	—
Amounts due from subsidiaries ( <i>note (b)</i> )	<b>21,683</b>	23,153
	<b>21,683</b>	23,153

# Notes To The Financial Statements

## 17 INVESTMENTS IN SUBSIDIARIES — COMPANY (Continued)

(a) The following is a list of the subsidiaries of the Company as at 31 March 2007:

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
<b>Shares held directly:-</b>				
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
<b>Shares held indirectly:-</b>				
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	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
Finnikon Investments Limited ("Finnikon")	British Virgin Islands 26 October 2006	1 ordinary shares of US\$1 each	100	Investment holding in Hong Kong
Geniman Information Limited ("Geniman")	Hong Kong 15 December 2006	1 ordinary shares of HK\$1 each	100	Trading and distribution of desktop PC components in Hong Kong

(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.

# Notes To The Financial Statements

## 18 INVENTORIES

	2007 HK\$'000	2006 HK\$'000
Raw materials	10,600	11,043
Finished goods	15,357	9,629
	<u>25,957</u>	<u>20,672</u>

Inventories consist of desktop PC components. At 31 March 2007, the carrying amount of inventories that were carried at net realisable value amounted to approximately HK\$5,561,000 (2006: HK\$1,745,000).

## 19 TRADE AND OTHER RECEIVABLES

	2007 HK\$'000	2006 HK\$'000
Trade receivables	64,423	45,585
Other receivables, deposits and prepayments	614	410
	<u>65,037</u>	45,995
Amount due within one year included in current assets	<u>(65,037)</u>	<u>(43,543)</u>
	<u>–</u>	<u>2,452</u>

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:

	2007 HK\$'000	2006 HK\$'000
0 – 30 days	28,032	20,410
31 – 60 days	6,111	11,481
61 – 90 days	9,454	6,638
Over 90 days	20,826	7,056
	<u>64,423</u>	<u>45,585</u>

The Group's credit policy is set out in note 29.

# Notes To The Financial Statements

## 19 TRADE AND OTHER RECEIVABLES *(Continued)*

Included in trade and other receivables are the following amounts denominated in a currency other than the functional currency of the Group's entities to which they relate:

	2007 HK\$'000	2006 HK\$'000
United States Dollars	<u>29,570</u>	<u>16,630</u>

## 20 BANK BALANCES AND CASH

As at 31 March 2007, approximately HK\$153,000 (2006: HK\$189,000) 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.

## 21 TRADE AND OTHER PAYABLES

	2007 HK\$'000	2006 HK\$'000
Trade payables	26,527	15,521
Other payables and accruals	3,457	2,114
	<u>29,984</u>	<u>17,635</u>

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:

	2007 HK\$'000	2006 HK\$'000
0 – 30 days	10,330	5,682
31 – 60 days	8,826	3,830
61 – 90 days	5,743	3,487
Over 90 days	1,628	2,522
	<u>26,527</u>	<u>15,521</u>

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the Group's entities to which they relate:

	2007 HK\$'000	2006 HK\$'000
United States Dollars	<u>8,513</u>	<u>2,446</u>

# Notes To The Financial Statements

## 22 INTEREST-BEARING BORROWINGS

	2007 HK\$'000	2006 HK\$'000
Bank overdrafts	775	–
Trust receipt loans	9,834	3,218
Bank loans:		
– Secured	4,283	4,758
– Unsecured	–	479
	<b>14,892</b>	<b>8,455</b>
Obligations under finance leases ( <i>note 23</i> )	114	–
	<b>15,006</b>	<b>8,455</b>
Amount due within one year included in current liabilities	<b>(13,455)</b>	<b>(5,328)</b>
Amount due after one year	<b>1,551</b>	<b>3,127</b>

*Notes:*

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

	2007 HK\$'000	2006 HK\$'000
On demand or within one year	13,396	5,328
In the second year	1,496	1,631
In the third to fifth year, inclusive	–	1,496
	<b>14,892</b>	<b>8,455</b>

The bank overdrafts, 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 32 below.

The average effective interest rate of the bank loans is 6% and 6.2% (2006: 6.2%) per annum.

The carrying amounts of interest-bearing borrowings approximate to their fair value.



# Notes To The Financial Statements

## 23 OBLIGATION UNDER FINANCE LEASES

At 31 March 2007, the Group had obligations under finance leases repayable as follows:

	Minimum lease payment		Present value of minimum lease payment	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Amount payable under finance lease:				
Within 1 year	61	–	59	–
In the second year	61	–	55	–
In the third and fifth years, inclusive	–	–	–	–
Less: future finance charges	(8)	–	–	–
Present value of lease obligation	<u>114</u>	–	<u>114</u>	–
Less: amount due for settlement within one year shown under current liabilities			<u>(59)</u>	–
Amount due for settlement after one year			<u>55</u>	–

# Notes To The Financial Statements

## 24 DEFERRED TAX

	Accelerated tax depreciation HK\$'000	Revaluation of properties HK\$'000	Tax loss HK\$'000	Others HK\$'000	Total HK\$'000
At 1 April 2005	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
At 1 April 2006	17	800	–	(106)	711
Charge/(credit) to income for the year	(43)	(14)	(222)	5	(274)
Charge to equity for the year	–	226	–	–	226
Exchange realignment	–	39	–	–	39
At 31 March 2007	(26)	1,051	(222)	(101)	702
			<b>2007</b>		2006
			<b>HK\$'000</b>		HK\$'000
Deferred tax assets			<b>(237)</b>		(183)
Deferred tax liabilities			<b>939</b>		894
			<b>702</b>		711

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:

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Deferred tax assets	<b>(335)</b>	(200)
Deferred tax liabilities	<b>1,037</b>	911
	<b>702</b>	711

At 31 March 2007, the Group has unused tax losses of approximately HK\$4,882,000 (2006: HK\$1,677,000) 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.

# Notes To The Financial Statements

## 25 SHARE CAPITAL

	Ordinary shares of HK\$0.01 each	
	Number of shares	Nominal value HK\$'000
Authorised:		
At 31 March 2006 and 31 March 2007	500,000,000	5,000
Issued and fully paid:		
At 31 March 2006 and 31 March 2007	357,136,200	3,571

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

## 26 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\$332,000 (2006: HK\$304,000). As at 31 March 2007, contributions totalling HK\$66,000 (2006: HK\$37,000) 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 2006 and 2007.

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

# Notes To The Financial Statements

## 26 EMPLOYEE BENEFITS (Continued)

### (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.

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.

# Notes To The Financial Statements

## 27 RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 28 of the financial statements.

Company	Share premium HK\$'000 (Note (v))	Retained profits HK\$'000	Total HK\$'000
At 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 and 1 April 2006	15,972	3,611	19,583
Profit for the year	–	1,482	1,482
Dividends – 2006 final	–	(3,214)	(3,214)
At 31 March 2007	15,972	1,879	17,851
Representing:			
Reserves			16,458
Proposed dividend			1,393
At 31 March 2007			17,851
Representing:			
Reserves			16,369
Proposed dividend			3,214
At 31 March 2006			19,583

*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.

Starting from 1 January 2006, the requirement to maintain statutory public welfare fund has been cancelled and the Group's statutory public welfare fund can be utilized at the discretion of the directors of the relevant entities.

# Notes To The Financial Statements

## 27 RESERVES (Continued)

Notes: (Continued)

- (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 2007 is approximately HK\$1,879,000 (2006: HK\$3,611,000).

## 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to net cash from operating activities

	2007 HK\$'000	2006 HK\$'000
Profit before taxation	3,268	8,629
Adjustments for:		
Amortisation of land lease premium	32	31
Depreciation	3,766	3,043
(Reversal of impairment loss)/impairment losses recognised on trade and other receivables	(10)	1,489
Write-down/(reversal of write-down) of inventories	148	(523)
Surplus arising from revaluation of properties	(627)	(316)
Interest income	(67)	(4)
Interest on bank loans and overdrafts	625	400
Interest element of finance leases	9	–
	<u>7,144</u>	<u>12,749</u>
Increase in inventories	(5,433)	(6,814)
(Increase)/decrease in trade and other receivables	(19,032)	6,673
Increase/(decrease) in trade and other payables	12,349	(488)
Decrease in amounts due to directors	–	(62)
	<u>(4,972)</u>	<u>12,058</u>
Cash (used in)/from operations	<u>(4,972)</u>	<u>12,058</u>

# Notes To The Financial Statements

## 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (*Continued*)

### (b) Cash and cash equivalents

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

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
Cash and bank balances	<b>11,891</b>	15,647
Bank overdraft	<b>(775)</b>	–
	<b>11,116</b>	15,647

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the Group's entities to which they relate:

	<b>2007</b> <b>HK\$'000</b>	2006 HK\$'000
United States Dollars	<b>9,481</b>	8,639

## 29 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.

# Notes To The Financial Statements

## 29 FINANCIAL RISK MANAGEMENT (*Continued*)

### (a) Financial risk factors (*Continued*)

#### (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.

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 20% (2006: 21%) and 40% (2006: 61%) 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.



# Notes To The Financial Statements

## 30 COMMITMENTS

### (i) Operating lease commitments

As at 31 March 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	499	453
In the second to fifth year, inclusive	73	171
	<u>572</u>	<u>624</u>

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.

- (ii) Apart from the above, the Group and the Company did not have any significant commitments as at 31 March 2007 and 2006.

## 31 CONTINGENT LIABILITIES

- (i) As at 31 March 2007, five (2006: eight) 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 meet the circumstances set out in the Ordinance, the Group's liability as at 31 March 2007 would be approximately HK\$199,000 (2006: HK\$576,000). No provision has been made in this respect.

- (ii) At 31 March 2007, the Company has issued guarantees amounting to approximately HK\$23,506,000 (2006: HK\$22,031,000) to banks in respect of facilities granted to a subsidiary. The extent of the facilities utilised by the subsidiary at 31 March 2007 amounted to HK\$14,869,000 (2006: HK\$7,976,000).

Save as disclosed above, the Group and the Company did not have any significant contingent liabilities as at 31 March 2007.

# Notes To The Financial Statements

## 32 BANKING FACILITIES

As at 31 March 2007, the Group had aggregate banking facilities of approximately HK\$26,380,000 (2006: HK\$23,431,000). The extent of the banking facilities utilised by the Group as at 31 March 2007 amounted to approximately HK\$14,869,000 (2006: HK\$8,455,000), 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\$4,590,000 (2006: HK\$3,500,000);
- (ii) fixed charges on certain plant and machinery located in PRC with an aggregate net book value of approximately HK\$5,407,000 (2006: HK\$5,642,000); and
- (iii) corporate guarantees executed by the Company.

## 33 RELATED PARTY TRANSACTIONS

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 13 and certain of the highest paid employees as disclosed in note 14 are as follows:

	2007 HK\$'000	2006 HK\$'000
Short-term employee benefits	3,309	2,833
Post-employment benefits	54	43
	<hr/> 3,363	<hr/> 2,876

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

# Notes To The Financial Statements

## 33 RELATED PARTY TRANSACTIONS (Continued)

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

	Note	2007 HK\$'000	2006 HK\$'000
Easely Investments Limited	(i)		
– Rentals of a director's quarter paid by the Group	(ii)	<b>388</b>	<b>354</b>

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 2006 and the Group renewed the lease arrangement and the lease currently in force will expire on 31 October 2007 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.

## 34 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				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000	2007 HK\$'000
Turnover	324,063	479,444	388,860	402,429	<b>320,066</b>
Cost of sales	(302,137)	(456,086)	(368,617)	(379,359)	<b>(301,923)</b>
Gross profit margin	6.8%	4.9%	5.2%	5.7%	<b>5.7%</b>
Gross profit	21,926	23,358	20,243	23,070	<b>18,143</b>
Other revenues	62	338	885	391	<b>643</b>
Operating expenditure	21,988 (13,028)	23,696 (12,588)	21,128 (12,322)	23,461 (14,748)	<b>18,786 (15,511)</b>
Surplus/(deficit) arising from revaluation of properties	(173)	200	1,183	316	<b>627</b>
Operating profit	8,787	11,308	9,989	9,029	<b>3,902</b>
Profit attributable to the shareholders	7,191	10,065	9,224	8,513	<b>3,681</b>
Dividend	1,500	3,500	4,285	3,214	<b>1,393</b>

## ASSETS AND LIABILITIES

	As at 31 March				
	2003 HK\$'000	2004 HK\$'000	2005 HK\$'000 (restated)	2006 HK\$'000	2007 HK\$'000
Non-current assets	26,778	25,800	21,680	30,884	<b>28,802</b>
Current assets	44,418	64,387	78,932	79,893	<b>103,109</b>
Current liabilities	26,274	31,801	23,923	24,009	<b>43,621</b>
Net current assets	18,144	32,586	55,009	55,884	<b>59,488</b>
Non-current liabilities	3,334	3,898	1,029	4,038	<b>2,588</b>
Shareholders' funds	41,588	54,488	75,660	82,730	<b>85,702</b>



# Financial Summary

*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 2003 and 2004 and its assets and liabilities as at 31 March 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 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 2006 and 2007 and its assets and liabilities as at 31 March 2006 and 2007 are set out on pages 24 to 26 respectively, of this annual report and are presented on the basis set out in Note 1 to the consolidated financial statements.