1. GENERAL INFORMATION

Huabao International Holdings Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The Company acts as an investment holding company. The activities of its subsidiaries are set out in note 27. The Company's ultimate holding company is Mogul Enterprises Limited ("Mogul"), a company incorporated in the British Virgin Islands with limited liability.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These consolidated financial statements are presented in Hong Kong dollars ("HK$"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors (the "Board") on 30 May 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention.

As at 31 March 2006, the Group and the Company recorded a net liability of HK$45,684,000 and HK$46,128,000 respectively. Out of which HK$48,550,000 was attributable to the recognition of the liability component of the convertible cumulative non-voting preference shares of HK$0.10 each (the "Preference Shares") issued by the Company in March 2004 (see note 20). Pursuant to the terms of the Preference Shares, one-third of the Preference Shares that have not been converted into ordinary shares shall be redeemed at its principal amount during the period between 22 March 2007 and 22 March 2008. However, according to the Companies Act 1981 of Bermuda (as amended) (the "Companies Act"), no redemption of preference shares may be effected if, on the date on which the redemption is to be effected, there are reasonable grounds for believing that the Company is, or after the redemption would be, unable to pay its liabilities as they become due. Moreover, Mogul, the holder of the Preference Shares, has issued a letter to the Board of the Company, stating that Mogul has agreed that the Company may not redeem the Preference Shares in cash pursuant to the terms of the Preference Shares within the next 12 months from 31 March 2006. Accordingly, the financial statements of the Group and the Company are prepared on a going concern basis.

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of new/revised HKFRS

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation – Special Purpose Entities
HKAS Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 28, 31, 33, 36, 38 and 40, HKAS-Ints 12, 15 and 21, and HKFRSs 2 and 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 17, 23, 27, 28, 31, 33, 36, 38, and 40, HKAS-Ints 12, 15 and 21, and HKFRSs 2 and 3 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

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

The adoption of HKASs 32 and 39 resulted in:

Preference shares

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortized cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to the Preference Shares (see note 20) that contain both liability and equity components. Previously, the Preference Shares were classified as equity on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative loss for 2005 has been restated in order to reflect the increase in effective interest on the liability component.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortized cost using the effective interest method.

The effects of the adoption of HKFRS on the results for the years ended 31 March 2006 and 2005 are as follows:

	2006 ***HK$'000***	2005 *HK$'000*
Increase in interest expense on the liability component of the Preference Shares under finance costs	**6,467**	5,949
Increase in basic loss per share	**HK cents 2.61**	HK cents 2.41

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The cumulative effects of application of HKFRS as at 31 March 2006 are summarized below:

	Originally stated *HK$'000*	**Applied retrospectively HKAS 32** *HK$'000*	**Restated** *HK$'000*
Effect on liabilities:			
Preference shares	**–**	**48,550**	**48,550**
Effect on equity:			
Share capital	**77,421**	**(52,690)**	**24,731**
Capital reserve	**1,677**	**16,556**	**18,233**
Accumulated losses	**(371,946)**	**(12,416)**	**(384,362)**
	(292,848)	**(48,550)**	**(341,398)**

The cumulative effects of application of HKFRS as at 31 March 2005 are summarized below:

	Originally stated *HK$'000*	Applied retrospectively HKAS 32 *HK$'000*	Restated *HK$'000*
Effect on liabilities:			
Preference shares	–	42,083	42,083
Effect on equity:			
Share capital	77,421	(52,690)	24,731
Capital reserve	1,677	16,556	18,233
Accumulated losses	(371,365)	(5,949)	(377,314)
	(292,267)	(42,083)	(334,350)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.1 Basis of preparation *(continued)*

The financial effects of the application of HKFRS to the Group's equity as at 1 April 2004 are summarized below:

	Originally stated *HK$'000*	Applied retrospectively HKAS 32 *HK$'000*	Restated *HK$'000*
Effect on equity:			
Share capital	77,421	(52,690)	24,731
Capital reserve	1,677	16,556	18,233
	79,098	(36,134)	42,964

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

1. HKAS 19 (Amendment), Employee Benefits – Actuarial Gains and Losses Group Plans and Disclosures (effective from 1 January 2006)
2. HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
3. HKAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)
4. HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)
5. HKFRS 1 (Amendment), First-time Adoption of Hong Kong Financial Reporting Standards (effective from 1 January 2006)
6. HKFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)
7. HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)
8. HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006)
9. HKFRS-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)
10. HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005)

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.2 Consolidation

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

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

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

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

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.4 Foreign currency translation *(continued)*

(b) *Transactions and balances*

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

(c) *Group companies*

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

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

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

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

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

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values at the following rates per annum after taking into account their estimated useful lives:

–	Leasehold improvements	25%
–	Plant and equipment	25%
–	Office equipment	25% to $33^1/_3$%

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.5 Property, plant and equipment *(continued)*

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2.6).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

2.6 Impairment of non-financial assets

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

2.7 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using weighted-average method. The cost of finished goods and work in progress mainly comprises raw materials. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.8 Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.10 Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities (see note 2.11).

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

2.11 Borrowings

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

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognized in the income statement as interest expense.

The fair value of the liability portion of preference shares is determined using a market interest rate for an equivalent non-convertible loan. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the preference shares. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity, net of income tax effects.

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

2.12 Deferred income tax

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

2.13 Pension obligations

The Group operates the Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong which is generally funded through payments to insurance companies under defined contribution plan. It pays contributions to administered pension insurance plans on a mandatory, contractual or voluntary basis. Moreover, all the employees of the Group's entities incorporated in the Mainland of the People's Republic of China (the "Mainland") participate in employee social security plans, including pension, medical, housing and other welfare benefits, organized and administered by the local government. The Group has no further payment obligations once these contributions have been paid. The contributions are recognized as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.14 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognized as follows:

(a) Sales of goods

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

(b) Interest income

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

2.15 Operating lease

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

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group mainly operates in Hong Kong and the Mainland with most of the transactions settled in HK$, U.S. dollars and Renminbi ("RMB"). It did not have significant exposure to foreign exchange risk. Nevertheless, the exchange rate of RMB to foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the Mainland government.

3. FINANCIAL RISK MANAGEMENT *(continued)*

(a) Market risk *(continued)*

(ii) Price risk

The Group is exposed to commodity price risk. It has not used any commodity futures to hedge its price risk exposure.

(b) Credit risk

The sales to top five customers account for over 70% of the total sales. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group controls the level of inventories, closely monitors the turnover days of receivables, and does not have bank and other borrowings. Having considered the redemption clause of the Preference Shares and relevant legislations which can be concluded that going concern of the Group will not be affected by its redemption, management believes that the Group does not have significant liquidity risk.

(d) Cash flow interest rate risk

The Group's interest rate risk arises from bank balances which bear market interest rates. As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

Estimate of the effective interest rate of the Preference Shares

In March 2004, the Company issued 526,900,000 Preference Shares (see note 20). In accordance with HKAS 32, the Company accounted for the redemption feature of the preference shares as a liability based on the expected discounted cash outflows for the redemption according to the terms of the subscription agreement. In this regard, the Company has engaged an independent firm of chartered surveyors to perform a valuation on the fair dividend rate (i.e. the discount rate). Taking into consideration the financial position and operating results of the Company, a market approach based primarily upon comparative default risk was adopted. With reference to the valuation results, the directors determined the fair dividend rate as 16.8%.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS *(continued)*

For information only, should the fair dividend rate increase by 1% from the directors' estimation, the liability component of the Preference Shares at the date of issue will be decreased by HK$1,066,000 and finance costs for the years ended 31 March 2005 and 2006 will be increased by HK$157,000 and HK$226,000 respectively. Should the fair dividend rate decrease by 1% from the directors' estimation, the liability component of the Preference Shares at the date of issue will be increased by HK$1,112,000 and finance costs for the years ended 31 March 2005 and 2006 will be decreased by HK$172,000 and HK$239,000 respectively.

5. TURNOVER

Turnover represents the net amounts received and receivable for goods sold, less returns and allowances, during the year.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Primary reporting format – Business segments

For management purposes, the Group is organized into two operating divisions – trading of consumer electronic products and fine chemicals. These principal operating activities are the basis on which the Group reports its primary segment information.

The segment information for the year ended 31 March 2006 is presented below:

	Consumer electronic products *HK$'000*	Fine chemicals *HK$'000*	Total *HK$'000*
Turnover	**3,717**	**14,846**	**18,563**
Segment results	**56**	**665**	**721**
Unallocated corporate expenses			**(1,017)**
Operating loss before finance costs			**(296)**
Finance costs			**(6,467)**
Loss before taxation			**(6,763)**
Taxation			**(285)**
Loss for the year			**(7,048)**

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Primary reporting format – Business segments *(continued)*

The segment information for the year ended 31 March 2005 is presented below:

	Consumer electronic products *HK$'000*	Fine chemicals *HK$'000*	Total *HK$'000* *(restated)*
Turnover	13,069	11,634	24,703
Segment results	87	385	472
Unallocated corporate expenses			(888)
Operating loss before finance costs			(416)
Finance costs			(5,949)
Loss before taxation			(6,365)
Taxation			(58)
Loss for the year			(6,423)

The segment assets and liabilities as at 31 March 2006 and capital expenditure for the year then ended are as follows:

	Consumer electronic products *HK$'000*	Fine chemicals *HK$'000*	Total *HK$'000*
Assets			
Segment assets	**3**	**7,255**	**7,258**
Unallocated assets			**177**
			7,435
Liabilities			
Segment liabilities	**281**	**3,945**	**4,226**
Unallocated liabilities			**48,893**
			53,119
Other information			
Capital expenditure	**–**	**469**	**469**
Depreciation	**–**	**74**	**74**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Primary reporting format – Business segments *(continued)*

The segment assets and liabilities as at 31 March 2005 and capital expenditure for the year then ended are as follows:

	Consumer electronic products *HK$'000*	Fine chemicals *HK$'000*	Total *HK$'000* *(restated)*
Assets			
Segment assets	149	9,071	9,220
Unallocated assets			983
			10,203
Liabilities			
Segment liabilities	480	6,031	6,511
Unallocated liabilities			42,343
			48,854
Other information			
Capital expenditure	–	30	30
Depreciation	–	6	6

Segment assets consist primarily of property, plant and equipment, inventories, trade and other receivables, cash and cash equivalents.

Segment liabilities comprise trade and other payables, amounts due to related companies and tax payable.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Secondary reporting format – Geographical segments

	2006			
	Segment revenue	**Segment results**	**Segment assets**	**Capital expenditure**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Hong Kong	**15,269**	**1,703**	**4,885**	**–**
Mainland	**3,294**	**(982)**	**2,550**	**469**
	18,563	**721**	**7,435**	**469**

	2005 *(restated)*			
	Segment revenue	Segment results	Segment assets	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	22,927	435	8,137	30
Mainland	1,776	37	2,066	–
	24,703	472	10,203	30

7. OPERATING LOSS BEFORE FINANCE COSTS

Operating loss before finance costs has been arrived at after crediting and charging the following:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Crediting:		
Exchange gains, net	**22**	–
Interest income	**45**	3
Charging:		
Auditors' remuneration	**350**	263
(Increase)/decrease in inventories	**(717)**	2,673
Depreciation	**74**	6
Employee benefit expense (see note 8)	**1,619**	1,024
Purchase of goods	**15,770**	19,938
Operating lease rentals in respect of land and buildings	**288**	99

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

8. EMPLOYEES BENEFIT EXPENSE

(a) Retirement scheme benefit

The Group operates a MPF Scheme for all the eligible employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

Under the MPF Scheme, the employees are required to contribute 5% of their monthly salaries up to maximum of HK$1,000 per employee and they can choose to make additional contributions. The employer's monthly contributions are calculated at 5% of each employee's monthly salaries up to a maximum of HK$1,000 (the "mandatory contributions"). The employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65 years old, death or total incapacity.

Moreover, the Group makes defined contribution to retirement schemes managed by the local government in the Mainland. It is the local government's responsibility to pay the retirement pension to those staff who retired.

Contribution paid or payable to the schemes depicted above by the Group amounted to HK$68,000 (2005: HK$18,000). At 31 March 2006 and 2005, there were no forfeited contributions available to reduce future obligations.

(b) Directors' emoluments

The remuneration of every director for the year ended 31 March 2006 and 2005 is set out below:

	Fees	
	2006	2005
Name of director	***HK$'000***	*HK$'000*
Executive Directors:		
Ms. Chu Lam Yiu	**–**	–
Mr. Chen Yong Chang	**5**	–
Mr. Poon Chiu Kwok (1)	**120**	120
Mr. Wang Guang Yu	**5**	–
Independent Non-executive Directors:		
Mr. Lee Luk Shiu (2)	**–**	–
Ms. Ma Yun Yan	**48**	24
Mr. Mak Kin Kwong, Peter	**120**	120
	298	264

Notes:

(1) Re-designated from Independent Non-executive Director to Executive Director on 1 May 2006.

(2) Appointed on 1 May 2006.

No directors had waived any emoluments during the year ended 31 March 2006 and 2005.

8. EMPLOYEES BENEFIT EXPENSE *(continued)*

(c) Five highest paid individuals

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

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Basic salaries and other benefits	**791**	717
Contributions to retirement benefit scheme	**19**	17
Compensation for loss of office	**–**	26
	810	760

Their emoluments were within the following band:

	Number of employees	
	2006	2005
Nil to HK$1,000,000	**3**	3

9. FINANCE COSTS

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Interest expense on preference shares liabilities	**6,467**	5,949

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

10. TAXATION

Hong Kong profit tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on the Mainland profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the respective jurisdiction in the Mainland in which the Group operates. There is no tax charge arising in other jurisdictions during the year.

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

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
		(restated)
Loss before taxation	**(6,763)**	(6,365)
Tax calculated at domestic income tax rates applicable to respective group companies	**(1,248)**	(1,131)
Tax effect of income not subject to tax	**(15)**	(16)
Tax effect of expenses not deductible for tax purposes	**1,132**	1,197
Tax effect of tax losses for which no deferred income tax asset was recognized	**415**	29
Others	**1**	(21)
Tax charge for the year	**285**	58

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group did not recognize deferred income tax assets in respect of unused tax losses amounting to HK$8,227,000 (2005: HK$5,466,000) that can be carried forward against future taxable income. Unrecognized losses of HK$88,000 (2005: HK$88,000) and HK$857,000 (2005: Nil) will expire in 2009 and 2010 respectively.

11. LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the Group's loss for the year of HK$7,048,000 (2005: HK$6,423,000) and the number of ordinary shares of 247,309,435 (2005: 247,309,435) outstanding during the year.

No diluted loss per share is presented for both years since the exercise of the outstanding Preference Shares and warrants of the Company would decrease the loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP			
	Leasehold improvements	Plant and equipment	Office equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004				
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Net book amount	–	–	–	–
Year ended 31 March 2005				
Opening net book amount	–	–	–	–
Additions	–	–	30	30
Depreciation	–	–	(6)	(6)
Closing net book amount	–	–	24	24
At 31 March 2005				
Cost	–	–	30	30
Accumulated depreciation	–	–	(6)	(6)
Net book amount	–	–	24	24
Year ended 31 March 2006				
Opening net book amount	**–**	**–**	**24**	**24**
Additions	**394**	**68**	**7**	**469**
Depreciation	**(59)**	**(5)**	**(10)**	**(74)**
Closing net book amount	**335**	**63**	**21**	**419**
At 31 March 2006				
Cost	**394**	**68**	**37**	**499**
Accumulated depreciation	**(59)**	**(5)**	**(16)**	**(80)**
Net book amount	**335**	**63**	**21**	**419**

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

13. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Unlisted investments, at cost	**390**	390
Less: Impairment loss and allowance	**(390)**	(390)
	–	–

Particulars of the principal subsidiaries of the Company at 31 March 2006 are set out in note 27.

14. AMOUNTS DUE FROM/TO SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**3,467**	2,932
Less: Impairment loss and allowance	**(216)**	(216)
	3,251	2,716

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

15. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period ranging from cash on delivery to 90 days to its trade receivables. The aged analysis of trade receivables is as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Trade receivables:		
0 - 30 days	**130**	452
31 - 90 days	**1,254**	275
Over 90 days	**593**	–
	1,977	727
Other receivables	**350**	218
	2,327	945

16. TRADE AND OTHER PAYABLES

The aged analysis of trade payables is as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Trade payables:		
0 - 30 days	**766**	1,799
31 - 90 days	**1,189**	1,400
Over 90 days	**1,206**	2,217
	3,161	5,416
Other payables	**873**	1,017
	4,034	6,433

17. INVENTORIES

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**245**	–
Work in progress	**57**	–
Finished goods	**415**	–
	717	–

The cost of inventories recognized as expense and included in cost of goods sold amounted to HK$15,053,000 (2005: HK$22,611,000).

18. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, interest-free and repayable on demand. Ms. Chu Lam Yiu, a director of the Company, has beneficial interest in these companies.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

19. SHARE CAPITAL

	THE COMPANY								
	Ordinary shares of HK$0.10 each		Convertible cumulative non-voting preference shares of HK$1.00 each ("Class 2")		Convertible cumulative non-voting preference shares of HK$0.10 each ("Class 1")		Convertible cumulative non-voting preference shares of HK$0.10 each (see note 20)		Total
	Number of shares	*HK$'000*	*Number of shares*	*HK$'000*	*Number of shares*	*HK$'000*	*Number of shares*	*HK$'000*	*HK$'000*
Authorised:									
At 1 April 2004, 31 March 2005 and 31 March 2006	**2,000,000,000**	**200,000**	**50,000,000**	**50,000**	**350,000,000**	**35,000**	**526,900,000**	**52,690**	**337,690**
Issued and fully paid:									
At 1 April 2004									
– as originally stated	247,309,435	24,731	–	–	–	–	526,900,000	52,690	77,421
On adoption of HKAS 32	–	–	–	–	–	–	–	(52,690)	(52,690)
At 31 March 2005 and 31 March 2006	**247,309,435**	**24,731**	**–**	**–**	**–**	**–**	**526,900,000**	**–**	**24,731**

Pursuant to an agreement dated 17 January 2004 and a supplemental agreement dated 3 February 2004, 173,100,000 ordinary shares of HK$0.1 each and 526,900,000 Preference Shares of HK$0.1 each were issued to Mogul at a consideration of HK$17,310,000 and HK$52,690,000 respectively on 22 March 2004. Moreover, warrants enabling the holder to subscribe for a maximum number of ordinary shares of 49,000,000 at HK$0.1 each were also issued to Mogul.

According to HKAS 32, equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. After deducting the liability component of the Preference Shares of HK$36,134,000 at 22 March 2004 (see note 20), the balance of the total consideration of HK$70,000,000 was allocated amongst the equity feature of ordinary shares, Preference Shares and warrants at the amounts of HK$7,938,000, HK$23,700,000 and HK$2,228,000 respectively. After deducting the liability component of Preference Shares of HK$36,134,000 and the paid-up capital of ordinary shares of HK$17,310,000, the remaining balance of the total consideration, amounting to HK$16,556,000, was credited to capital reserve (see note 22).

20. PREFERENCE SHARES

The Company issued 526,900,000 Preference Shares on 22 March 2004 (the "issue date") with the terms as follows:

(i) the Preference Shares are entitled to a cumulative annual dividend of 5% on the principal amount, payable semi-annually in arrears on the 30 April and 31 October but are not entitled to any further dividend distribution.

(ii) In the case where the listing of the Company's ordinary shares on the Stock Exchange is cancelled or trading of the same on the Stock Exchange is suspended for a period of 20 consecutive trading days or more, the Company shall redeem all but not part of the Preference Shares if such shareholder serves a notice to the Company to redeem the Preference Shares subject to the requirements of the Companies Act.

Additionally, during each of the first, second and final redemption period (being the third to fourth, fourth to fifth (excluding fifth anniversary day) and fifth anniversary day of the first issue date of the Preference Shares respectively), the Company shall redeem the Preference Shares. During each of such period/date (as the case maybe), the Company shall redeem in cash at the principal amount of one-third of the Preference Shares as are in issue on the issue date in respect of which the right of conversion (see (iii) below) has not been exercised, together with shares that have not been redeemed previously and all accrued but unpaid dividend of the Company.

In the event that during the conversion period (i.e. from issue date to final redemption date), the holder converts the Preference Shares, partial redemptions as contemplated above will be impacted so that the proportion or number of the Preference Shares which may be redeemed during the relevant redemption period(s), or at the final redemption date, respectively, shall be down-adjusted or reduced accordingly.

(iii) the holders of such Preference Shares are entitled to convert their shares, at par value, in multiple of 100,000 into ordinary shares at any time prior to the date upon which such Preference Shares are redeemed.

(iv) the holders of such Preference Shares have the same voting rights as those attaching to the ordinary shares of the Company only if there are any accrued dividends overdue for more than 12 months or where a resolution is to be proposed at a general meeting for winding-up the Company or if passed would (subject to any consents required for such purpose being obtained) vary or abrogate the rights or privileges of the holders of the Preference Shares.

With the retrospective application of new HKAS 32 on 1 April 2005, the fair values of the liability component and the equity component were determined at issuance of the Preference Shares.

The fair value of the liability component, included in non-current liability, was calculated making reference to a market interest rate for an equivalent non-convertible loan (see note 4).

The residual amount, representing the value of the equity conversion features of the Preference Shares and the warrants, is included in capital reserve.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

20. PREFERENCE SHARES *(continued)*

The Preference Shares recognized in the balance sheet is calculated as follows:

	HK$'000
Nominal value of the Preference Shares issued on 22 March 2004	52,690
Equity component at date of issue	(16,556)
Liability component on initial recognition at 22 March 2004	36,134
Interest charged up to 31 March 2005	5,949
Liability component at 31 March 2005	42,083
Interest charged for the year ended 31 March 2006	6,467
Liability component at 31 March 2006	48,550

The interest charged is calculated using the effective interest method by applying the effective interest rate of 16.8% to the liability component since the Preference Shares were issued.

The fair value of the liability component of the Preference Shares at 31 March 2006, determined based on the present value of the estimated future cash outflows discounted at the prevailing market rate for an equivalent non-convertible loan at the balance sheet date, approximates the carrying value.

21. SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the shareholders of the Company on 19 March 2004 (the "Share Option Scheme"), the Board of the Company may for a consideration of HK$1.00 grant options to eligible participants ("Participants" as defined in the circular of the Company dated 25 February 2004) to subscribe for shares of the Company. The purpose of the Share Option Scheme is to provide incentive to motivate Participants to make contribution to, and promote the interests of, the Company and to develop and maintain business relationships with Participants for the benefit of the Group. The subscription price will be determined by the Board and shall be at least the higher of (i) the closing price of the Company's ordinary shares of HK$0.1 each (the "Shares") as stated in the Stock Exchange's daily quotation sheet on the date of the offer of the share options, which must be a trading date; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Shares. Each participant must accept the grant of option before a specified date, being a date not later than 30 business days after the date of offer.

The total number of the Shares in respect of which options may be granted shall not exceed 10% of the total issued ordinary share capital of the Company as at the date of approval of the Share Option Scheme unless the Company obtains a fresh approval from the holders of the Shares in general meeting to renew the 10% limit. The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the Shares in issue unless the same is approved by shareholders of the Company.

The aggregate maximum number of the Shares in respect of which options may be granted under the Share Option Scheme and other share option scheme(s) of the Company (if any) must not, in aggregate, exceed 30% of the total number of the Shares in issue from time to time.

21. SHARE OPTION SCHEME *(continued)*

The Share Option Scheme became effective for a period of ten years commencing 19 March 2004 (the date on which the Share Option Scheme was adopted).

The details and major provisions of the Share Option Scheme were set out in the circular of the Company dated 25 February 2004.

No options under the Share Option Scheme had been granted to any persons since its adoption and up to 31 March 2006.

22. RESERVES

	THE COMPANY				
	Contributed surplus *HK$'000*	**Share premium account** *HK$'000*	**Capital reserve** *HK$'000*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 April 2004					
– as originally stated	51,111	244,588	1,677	(369,863)	(72,487)
– effects of changes in accounting policies (see note 19)	–	–	16,556	–	16,556
– as restated	51,111	244,588	18,233	(369,863)	(55,931)
Loss for the year	–	–	–	(7,444)	(7,444)
At 31 March 2005	**51,111**	**244,588**	**18,233**	**(377,307)**	**(63,375)**
Loss for the year	**–**	**–**	**–**	**(7,484)**	**(7,484)**
At 31 March 2006	**51,111**	**244,588**	**18,233**	**(384,791)**	**(70,859)**

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which the corporate reorganization became effective and the nominal amount of the Company's shares issued under the reorganization.

Under the Companies Act, the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

At the balance sheet date, in the opinion of the directors, the Company had no reserves available for distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

For the year ended 31 March 2006

23. CAPITAL COMMITMENTS

The Group and the Company had no outstanding capital commitments as at 31 March 2006.

24. OPERATING LEASE COMMITMENTS

At the balance sheet date, the future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	THE GROUP	
	2006	2005
	HK$'000	*HK$'000*
Within one year	**277**	230
In the second to fifth year inclusive	**709**	962
	986	1,192

Leases are negotiated for terms ranging from 1 to 5 years with fixed monthly rentals over the terms of the leases.

The Company had no commitments under non-cancellable operating leases at the balance sheet date.

25. CONTINGENT LIABILITIES

The directors noted from an announcement dated 29 April 2002 made by certain former directors that a verbal demand notice was received from one of the creditors demanding immediate settlement of approximately RMB9,600,000 alleged outstanding debts. However, after the directors have reviewed the records of the Company and conducted internal investigations after appointment, the directors do not have any other information available to verify the existence of or the validity of this claim but will continue to monitor and review the situation from time to time.

Save as disclosed above and based on the information available to the directors, the Group and the Company had no contingent liabilities as at 31 March 2006.

26. RELATED PARTY TRANSACTIONS

During the year, the Group has entered into the following transactions with related parties:

	2006	2005
	HK$'000	*HK$'000*
Amount charged by a related company for sharing of administrative expenses (see note a)	**564**	374
Repayment to a former shareholder	**–**	(2,875)
Payments on behalf of a subsidiary of the Company by related companies (see note b)	**277**	–

26. RELATED PARTY TRANSACTIONS *(continued)*

Notes:

(a) The related company is a company in which a director of the Company, Ms. Chu Lam Yiu, has a beneficial interest. The sharing of administrative expenses was charged based on the actual administrative costs incurred, including share of office premises and corporate expenses, and the basis of which was considered appropriate by the directors.

(b) The related companies are companies in which a director of the Company, Ms. Chu Lam Yiu, has beneficial interests. The amounts represent certain pre-operating expenses and leasehold improvements paid by the related companies on behalf of a subsidiary of the Company.

(c) On 22 March 2004, the Company, Huabao Investment Company Limited ("Huabao Investment"), a wholly-owned subsidiary of the Company, and the ultimate holding company entered into a loan agreement (the "Loan Agreement") which was approved by the shareholders at a special general meeting held on 19 March 2004. Pursuant to the Loan Agreement, the ultimate holding company agreed to grant a revolving loan facility of up to HK$15 million (the "Loan Facility") to the Company and Huabao Investment at an interest rate of 2% over the six-month Hong Kong Interbank Offered Rate. Repayment of the loan and the relevant interests are guaranteed by the Company (limited to HK$15 million) and secured by a first legal fixed charge on the Company's entire shareholding interests in Huabao Investment and a first floating charge on all the assets of Huabao Investment. For the two years ended 31 March 2006, the Group did not make any drawdown under the Loan Facility.

27. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 March 2006 are as follows:

Name of company	Place of incorporation/ registration	Particulars of issued share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			Directly	*Indirectly*	
Asiarim Associates Limited	The British Virgin Islands	50,000 ordinary shares of US$1 each	100%	–	Trading of computer-related products and consumer electronic products
Hero Ace Limited	Hong Kong	1 ordinary share of HK$1each	100%	–	Provision of management services
Huabao Investment Company Limited	The British Virgin Islands	1 ordinary share of US$1 each (see note 26(c))	100%	–	Investment holding
Sino Top Trading Limited	Hong Kong	100 ordinary shares of HK$1 each	–	100%	Trading of fine chemicals
華航貿易發展(深圳)有限公司(see note)	Mainland	HK$500,000 Registered capital	–	100%	Trading of fine chemicals
華順香料(上海)有限公司(see note)	Mainland	US$150,000 Registered capital	–	100%	Manufacture and sale of fine chemicals

Note: Both companies are wholly foreign-owned enterprises registered in the Mainland.