

# Report of The Directors

The board of directors (the “**Board**”) of Kenford Group Holdings Limited (the “**Company**”) herein present the annual report and the audited financial statements (the “**Financial Statements**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 March 2006.

## **GROUP REORGANISATION, SUBSIDIARIES AND BASIS OF PREPARATION**

The Company was incorporated in the Cayman Islands on 10 November 2004 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to the Group reorganisation (“**Reorganisation**”) as detailed in section B headed “Corporate Reorganisation” in Appendix VIII to the prospectus dated 31 May 2005 (“**Prospectus**”) of the Company in preparation of the listing of the Company’s shares on the Main Board of the Stock Exchange of Hong Kong Limited (“**Stock Exchange**”), the Company became the holding company of other companies now comprising the Group on 23 March 2005. Further details of the Reorganisation as well as the basis of preparation of the Financial Statements are set out in Notes 1 and 2 to the Financial Statements.

Following the completion of the Reorganisation and the public offer and placing of the Company’s shares as set out in the Prospectus, the Company’s shares were listed on the Stock Exchange on 16 June 2005.

## **PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in Note 17 to the Financial Statements.

An analysis of the Group’s performance for the year by business and geographical segments is set out in Note 6 to the Financial Statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 31 March 2006 are set out in the Consolidated Income Statement on page 29.

An interim dividend of HK1 cent per share of the Company amounting to HK\$4 million was paid to the shareholders of the Company during the year.

The Board now recommends the payment of a final dividend of HK0.3 cent per share to the shareholders of the Company on the register of members of the Company on Friday, 8 September 2006, amounting to approximately HK\$1.2 million. Subject to the approval of shareholders with regard to the proposed payment of the final dividends at the forthcoming annual general meeting, the dividend warrants will be dispatched to shareholders on or about Friday, 22 September 2006.

## **CLOSURE OF REGISTER OF MEMBERS AND REGISTER OF WARRANTHOLDERS**

The register of members and the register of warrantholders of the Company will be closed from Tuesday, 5 September 2006 to Friday, 8 September 2006, both days inclusive, during which period no transfer of shares/warrants and no share of the Company to be issued upon exercise of any subscription right attaching to the outstanding warrants issued by the Company will be registered. In order to qualify for the proposed final dividend or to ascertain the right to attend the forthcoming annual general meeting of the Company, all transfers of shares and/or exercise of the subscription rights of the outstanding warrants, duly accompanied by the relevant share certificates, and the appropriate transfer forms and/or in the case of warrantholders, all duly completed subscription forms accompanied by the relevant warrant certificates and the appropriate subscription monies, must be lodged for registration with the Company’s share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 4 September 2006. The last day in Hong Kong of dealings in Company’s shares with entitlement to final dividend will be on Thursday, 31 August 2006. Shares of the Company will be traded ex-dividend as from Friday, 1 September 2006. Warrantholders who wish to convert their warrants into shares in order to qualify for the proposed final dividend must lodge the duly completed subscription form together with the relevant warrant certificates accompanied by the subscription monies with the Company’s Registrar not later than 4:00 p.m. on Monday, 4 September 2006.

# Report of The Directors

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in Note 14 to the Financial Statements.

## SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the movements in the issued share capital, share options and warrants of the Company during the year are set out in Note 25 to the Financial Statements.

## RESERVES

Details of the movements in the reserves of the Group during the year are set out on page 33.

## DIRECTORS

The directors of the Company (the “**Directors**”) who held office during the year and up to the date of this report were:

### *Executive Directors:*

Lam Wai Ming (*Chairman*)

Tam Chi Sang (*Managing Director*)

Chan Kwok Tung, Donny

### *Independent Non-Executive Directors:*

Chiu Fan Wa

Li Chi Chung

Li Tat Wah

In accordance with Article 87 of the Company’s articles of association, Mr Chan Kwok Tung, Donny and Mr Chiu Fan Wa will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

## DIRECTORS’ AND SENIOR MANAGEMENT’S PROFILES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 20 to 21 of this annual report.

## DIRECTORS’ SERVICE CONTRACTS

Mr Chan Kwok Tung, Donny, the Executive Director, has entered into a service agreement with the Company for an initial term of three years commencing from 16 June 2005 and the aforesaid agreement may be terminated by not less than three months’ prior notice in writing served by either party on the other.

Mr Chiu Fan Wa, the Independent Non-Executive Directors, has entered into a letter of appointment with the Company commencing on the 16 June 2005 for a term of one year and shall continue until terminated by not less than one month’s prior notice in writing served by either party on the other.

Save as disclosed above, none of the Directors proposed for re-election at the forthcoming annual general meeting had entered into any service contracts with the Company, which were not determinable by the Company within one year without compensation (other than statutory compensation).

# Report of The Directors

## DIRECTORS' INTEREST AND CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in Note 35 to the Financial Statements, none of the Directors or controlling shareholders of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding companies, or any of its subsidiaries was a party during the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares of HK\$0.001 each in the share capital the Company (the "Shares") or the 100,000,000 warrants issued by the Company, in units of HK\$0.30 of the subscription rights to subscribe for up to 50,000,000 Shares at the initial subscription price of HK\$0.60 per Share at any time from 16 June 2005 to 13 June 2008 (both days inclusive) (the "Warrants") on the Stock Exchange (together the "Securities") during the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO; or as notified to the Company and the Stock Exchange pursuant to the Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he is taken or deemed to have under such provisions of the SFO) and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") at the date of this report, were as follows:

### Long position in the Securities of the Company

Name of Director	Nature of interest	Total number of Shares held in the Company	Percentage of issued Shares
Mr Lam Wai Ming	Corporate interest	275,400,000 (Note 1)	68.85%
Mr Tam Chi Sang	Corporate interest	275,400,000 (Note 2)	68.85%
Mr Chan Kwok Tung, Donny	Corporate interest	16,200,000 (Note 3)	4.05%

Notes:

(1) Mr Lam Wai Ming is taken to be interested in an aggregate of 275,400,000 Shares as follows:

(i) Mr Lam Wai Ming is taken to be interested in an aggregate of 244,800,000 Shares held by Achieve Best Limited ("Achieve Best") and Beaute Inc ("Beaute") respectively as to:

(a) 40,800,000 Shares are held by Achieve Best which is wholly-owned by Mr Lam Wai Ming and he is the sole director of Achieve Best. Mr Lam Wai Ming is therefore taken to be interested in 40,800,000 Shares that Achieve Best is interested;

# Report of The Directors

## DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS (Continued)

### Long position in the Securities of the Company (Continued)

Notes: (Continued)

- (b) 204,000,000 Shares are held by Beaute which is owned as to 50% by Apex Prima Limited ("**Apex Prima**") and 50% by Potentasia Holdings Inc ("**Potentasia**"). Apex Prima is wholly-owned by Mr Lam Wai Ming and Potentasia is wholly-owned by Mr Tam Chi Sang. Mr Lam Wai Ming is also a director of Beaute and the sole director of Apex Prima. Mr Lam Wai Ming is therefore taken to be interested in 204,000,000 Shares that Beaute is interested; and
- (ii) Mr Lam Wai Ming is taken to be interested in an aggregate of 30,600,000 Shares upon the exercise of the subscription rights attached to the 61,200,000 Warrants held by Achieve Best and Beaute respectively.
- (2) Mr Tam Chi Sang is taken to be interested in an aggregate of 275,400,000 Shares as follows:
- (i) Mr Tam Chi Sang is taken to be interested in an aggregate of 244,800,000 Shares held by Realchamp International Inc ("**Realchamp**") and Beaute respectively as to:
- (a) 40,800,000 Shares are held by Realchamp which is wholly-owned by Mr Tam Chi Sang and he is the sole director of Realchamp. Mr Tam Chi Sang is therefore taken to be interested in 40,800,000 Shares that Realchamp is interested;
- (b) 204,000,000 Shares are held by Beaute which is owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima is wholly-owned by Mr Lam Wai Ming and Potentasia is wholly-owned by Mr Tam Chi Sang. Mr Tam Chi Sang is also a director of Beaute and the sole director of Potentasia. Mr Tam Chi Sang is therefore taken to be interested in 204,000,000 Shares that Beaute is interested; and
- (ii) Mr Tam Chi Sang is taken to be interested in an aggregate of 30,600,000 Shares upon the exercise of the subscription rights attached to the 61,200,000 Warrants held by Realchamp and Beaute respectively.
- (3) Mr Chan Kwok Tung, Donny is taken to be interested in an aggregate of 16,200,000 Shares as follows:
- (i) Mr Chan Kwok Tung, Donny is taken to be interested in an aggregate of 14,400,000 Shares held by Champion Sight Investments Inc ("**Champion Sight**"). Champion Sight is wholly-owned by Mr Chan Kwok Tung, Donny and he is the sole director of Champion Sight; and
- (ii) Mr Chan Kwok Tung, Donny is taken to be interested in an aggregate of 1,800,000 Shares upon the exercise of the subscription rights attached to the 3,600,000 Warrants held by Champion Sight.

### Long position in the shares in the associated corporation

Name of Director	Name of associated corporation	Class of shares	Nature of interest	Total number of shares held	Approximate percentage of interests
Mr Lam Wai Ming	Beaute	Ordinary share	Corporate interest	2 (Note)	100%
Mr Tam Chi Sang	Beaute	Ordinary share	Corporate interest	2 (Note)	100%

Note: Beaute is owned as to 50% by Apex Prima and 50% by Potentasia. Apex Prima is wholly-owned by Mr Lam Wai Ming and Potentasia is wholly-owned by Mr Tam Chi Sang. Both Mr Lam Wai Ming and Mr Tam Chi Sang are the directors of Beaute. Mr Lam Wai Ming and Mr Tam Chi Sang are therefore taken to be interested in the shares in Beaute through their respective interests in Apex Prima and Potentasia.

Save as disclosed above, none of the Directors or chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

# Report of The Directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SECURITIES OF THE COMPANY

As at 31 March 2006, the interests and short positions of the persons, other than Directors and chief executive of the Company, in the shares and underlying shares of the Company, as recorded in the register required to be kept under section 336 of the SFO or as notified to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

### Long position in Securities of the Company

Name of substantial shareholder	Number of Shares held (other than under equity derivatives)	Number of Shares held under equity derivatives <i>(Note 1)</i>	Total number of Shares held	Percentage of issued Shares
Beaute	204,000,000	25,500,000	229,500,000	57.38%
Apex Prima <i>(Note 2)</i>	204,000,000	25,500,000	229,500,000	57.38%
Potentasia <i>(Note 3)</i>	204,000,000	25,500,000	229,500,000	57.38%
Achieve Best	40,800,000	5,100,000	45,900,000	11.48%
Realchamp	40,800,000	5,100,000	45,900,000	11.48%

Notes:

1. The Warrants were issued by way of bonus issue to all shareholders whose names appeared on the register of members of the Company as at completion of the share offer and the capitalization issue in the proportion of one Warrant for every four Shares, in unit(s) of HK\$0.30 of the subscription rights to the warrant holders. The subscription price of the Warrants is HK\$0.60 per Share with a subscription period from 16 June 2005 to 13 June 2008. Up to the date of this report, there was no conversion of the Warrants.
2. Apex Prima is taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which is owned as to 50% by Mr Lam Wai Ming and 50% by Mr Tam Chi Sang.
3. Potentasia is taken to be interested in an aggregate of 204,000,000 Shares held by Beaute which is owned as to 50% by Mr Lam Wai Ming and 50% by Mr Tam Chi Sang.

## SHARE OPTION SCHEME

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

The following is the summary of the principal terms of the Share Option Scheme and the Pre-IPO Share Option Scheme:

### I) Share Option Scheme

#### (a) Purpose

The purpose of the Share Option Scheme is to enable the Group and any entity in which any member of the Group as enlarged by the acquisition of the Kario Company Limited and its subsidiary (“Kario Group”), or, in respect of any period before the completion of such acquisition, deemed to have been so enlarged as if the Company were the holding company of the Kario Group (the “Enlarged Group”) holds an equity interest (the “Invested Entities”) to recruit and retain high calibre Eligible Person(s) (as defined in paragraph (b) below) and attract human resources that are valuable to the Enlarged Group or Invested Entities, to recognize the significant contributions of the Eligible Persons to the growth of the Enlarged Group or Invested Entities by rewarding them with opportunities to obtain ownership interest in the Company and to further motivate and give incentives to these Eligible Persons to continue to contribute to the long term success and prosperity of the Enlarged Group or Invested Entities.

# Report of The Directors

## SHARE OPTION SCHEME (Continued)

### I) Share Option Scheme (Continued)

#### (b) *Who may join*

Any person belonging to any of the following classes who, in the sole discretion of the Board, have contributed or will contribute to the growth and development of the Enlarged Group or any Invested Entity are defined as Eligible Persons:

- (i) any employee (whether full time or part time), senior executive or officer, manager, director (including executive, non-executive and independent non-executive director) or consultant of any members of the Enlarged Group or any Invested Entity;
- (ii) any consultant, adviser or agent engaged by any member of the Enlarged Group or any Invested Entity, who, under the terms of relevant engagement with the Enlarged Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company;
- (iii) any vendor, supplier of goods or services or customer of or to any member of the Enlarged Group or Invested Entity who, under the terms of relevant agreement with the Enlarged Group or the relevant Invested Entity, is eligible to participate in a share option scheme of the Company; and
- (iv) any discretionary trust whose discretionary objects include the persons as described in (i), (ii) and/or (iii) above;

The Board may invite any Eligible Person as the Board may in its absolute discretion select, having regard to each person's qualifications, skills, background, experience, service records and/or contribution or potential value to the relevant member(s) of the Enlarged Group or Invested Entity, to take up a right granted to subscribe for Shares pursuant to the Share Option Scheme and "Options" shall be construed accordingly (the "**Options**") to subscribe for Shares at a price calculated in accordance with paragraph (c) below.

#### (c) *Subscription price and acceptance period*

The subscription price for the Shares under the Share Option Scheme shall be a price determined by the Board at its absolute discretion and notified to an Eligible Person but shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which the offer of a grant of Option pursuant to the Share Option Scheme (the "**Offer**") is made to an Eligible Person pursuant to the Share Option Scheme (the "**Offer Date**");
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the Offer Date; and
- (iii) the nominal value of a Share.

The Eligible Person must accept any such Offer notified to him or her within fourteen (14) days from the Offer Date, failing which it shall be deemed to have been rejected. Upon acceptance of the Offer, any Eligible Person who accepts an Offer in accordance with the terms of the Share Option Scheme (the "**Grantee**") shall pay HK\$1.00 to the Company as consideration for the grant.

# Report of The Directors

## SHARE OPTION SCHEME (Continued)

### I) Share Option Scheme (Continued)

#### *(d) Maximum number of Shares subject to the Share Option Scheme*

- (i) Subject to the provisions of paragraph (d)(ii) below,
  - (1) the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company must not in aggregate exceed ten (10)% (“**Scheme Mandate Limit**”) of the nominal amount of all issued Shares as at 16 June 2005 (the “**Listing Date**”) (such ten (10)% shall represent 40,000,000 Shares) unless the Company obtains a fresh approval from the holders of the Shares (the “**Shareholders**”) pursuant to paragraphs (d)(i)(2) and/or (3) below;
  - (2) the Company may seek approval of the Shareholders in general meeting to refresh the Scheme Mandate Limit from time to time such that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme(s) of the Company shall not exceed ten (10)% of the Shares in issue as at the date of such Shareholders’ approval. The Company must send a circular containing the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules to the Shareholders; and
  - (3) the Company may seek separate Shareholders’ approval in general meeting to grant Options over and above the Scheme Mandate Limit provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specified by the Company before such approval is sought and for whom specific approval is then obtained. The Company must issue a circular containing the information required under Note 1 to Rule 17.03(3) of the Listing Rules to the Shareholders.
- (ii) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company shall not in aggregate exceed thirty (30)% of the Shares in issue from time to time required under Note 2 of Rule 17.03(3) of the Listing Rules. Further, no option may be granted under the Share Option Scheme and any other option scheme(s) of the Company if such limit is exceeded.

#### *(e) Maximum entitlement of each Grantee*

- (i) Unless the approval of Shareholders contemplated under paragraph (e)(ii) below is obtained, the total number of Shares issued and to be issued upon exercise of the options granted to each Eligible Person under the Share Option Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) in any 12-month period must not exceed one (1)% of the Shares in issue.

# Report of The Directors

## SHARE OPTION SCHEME (Continued)

### I) Share Option Scheme (Continued)

#### (e) *Maximum entitlement of each Grantee (Continued)*

- (ii) Where the Board proposes to grant an option to an Eligible Person under the Share Option Scheme and/or any other share option scheme(s) of the Company and such further grant would result in such Eligible Person becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares (a) already issued under all the options previously granted to him or her which have been exercised; (b) issuable under all the options previously granted to him or her which are for the time being subsisting and unexercised; and (c) which were subject to options previously granted to him or her but for the time being having been cancelled in the past 12-month period up to and including the date of such further grant, exceeding one (1)% of the Shares in issue for the time being, such further grant shall be separately approved by the Shareholders in general meeting (with such Eligible Person and his or her associates abstaining from voting). The relevant requirements under the Note to Rule 17.03(4) of the Listing Rules must be complied with.

#### (f) *Term of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten (10) years commencing from 27 May 2005 (being the date of approval of the Share Option Scheme by the Shareholders), after which no further Options shall be granted but the Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue and the provisions of the Share Option Scheme shall in all other respects remain in full force and effect in respect thereof.

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

### II) Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to, amongst others, give the participants an opportunity to obtain ownership interest in the Company and recognize the significant contribution of, and further motivate and to give incentives to, the key executives, senior management and full-time employees of the Enlarged Group (including Executive Directors) who, in the sole discretion of the Board, has contributed or will contribute to the Enlarged Group. The principal terms of the Pre-IPO Share Option Scheme, approved and adopted by a written resolution of all the Shareholders dated 27 May 2005 (which is still subject to certain conditions similar to those referred to under the Share Option Scheme), are basically the same as the terms of the Share Option Scheme, except that:

- (a) the exercise price for each Share is one third of HK\$0.55 (the “**Offer Price**”);
- (b) the option period (the “**Option Period**”) of all options granted does not exceed 3 years from the Listing Date;
- (c) the options cannot be exercised within six months from the date on which the Shares and Warrants first commence trading;
- (d) Subject to paragraph (c) above and the requirements under the Listing Rules, the option may be exercised at any time during the Option Period provided that the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on that date shall not be less than 1.25 times of the Offer Price;
- (e) the definition of the “**Eligible Persons**” means key executives, senior management and full-time employees of the Enlarged Group (including executive directors of the Enlarged Group);



# Report of The Directors

## SHARE OPTION SCHEME (Continued)

### II) Pre-IPO Share Option Scheme (Continued)

- (f) the total number of Shares subject to the Pre-IPO Share Option Scheme is 4,000,000 Shares; and
- (g) save for the options which have been conditionally granted under the Pre-IPO Share Option Scheme in respect of 4,000,000 Shares, no further options will be offered or granted pursuant to the Pre-IPO Share Option Scheme, as the right to do so has been terminated on 27 May 2005.

As at the date of this report, options to subscribe for 4,000,000 Shares in aggregate (representing 1% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the capitalisation issue at an exercise price equivalent to one third of the Offer Price) have been conditionally granted by the Company under the Pre-IPO Share Option Scheme.

Particulars of outstanding options under Pre-IPO Share Option Scheme at the beginning and at the end of the financial year ended 31 March 2006 and the details of share options granted, exercised, cancelled and lapsed during the year were as follows:

Name of grantee	Grant date	Exercise period of share option	Exercise price of share option HK\$	No. of share options held at 1 April 2005	No. of share options granted during the year	No. of share options exercised during the year	No. of share options cancelled/lapsed during the year	No. of share options held at 31 March 2006
<b>Senior management</b>								
Mr Kwong Pak Chuen, Patrick Senior Engineering Manager	28 May 2005	16 December 2005 to 13 June 2008*	One third of 0.55	-	1,200,000	-	-	1,200,000
Mr Law Tak Wai Operation Manager	28 May 2005	16 December 2005 to 13 June 2008*	One third of 0.55	-	1,200,000	-	-	1,200,000
Mr Wong Siu Man Senior Materials Manager	28 May 2005	16 December 2005 to 13 June 2008*	One third of 0.55	-	600,000	-	-	600,000
Mr Lam Wai Hung Administration Manager	28 May 2005	16 December 2005 to 13 June 2008*	One third of 0.55	-	1,000,000	-	-	1,000,000
<b>Total:</b>				-	4,000,000	-	-	4,000,000

\* The closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of exercise of the option shall not be less than 1.25 times of HK\$0.55.

Save as disclosed above, no options have been granted by the Company under the Pre-IPO Share Option Scheme.

# Report of The Directors

## SHARE OPTION SCHEME (Continued)

### Fair Value of the Pre-IPO Share Options

For the determination of the fair value of the Pre-IPO Share Options granted, reference was made to the Binomial Option Pricing Model taking into account a number of factors such as the exercise price and the life of the options, the market price and volatility of the underlying shares, and the risk-free interest rate for the life of the options. In addition, it requires input of assumptions that have significant sensitivity effects, including the approximation of the stock price at the grant date of the Pre-IPO Share Options, expected stock price volatility, expected dividend, etc. Any changes in the subjectivity input assumptions may materially affect the estimation of the fair value of an option. The fair value of the Pre-IPO Share Options granted by using Binomial Option Pricing Model was approximately HK\$0.2501 per share option.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year were there any rights to acquire benefits by means of the acquisition of securities of the Company granted to any Director or their respective spouse or children under 18 years of age, or were there any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, as at the latest practicable date prior to the printing of this report, the Company has maintained sufficient public float of the Company's issued shares as required under the Listing Rules.

## INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its Independent Non-Executive Directors an annual confirmation of his independence. The Company considers that all of its Independent Non-Executive Directors are independent.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 71 and 72.

## RELATED PARTY TRANSACTIONS

Details of the information in relation to the related party transactions of the Group during the year is set out on Note 35 to the Financial Statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to its existing Shareholders.

# Report of The Directors

## TAXATION OF HOLDERS OF SHARES AND WARRANTS

### (a) Hong Kong

Dealings in Shares and Warrants registered on the Company's Hong Kong branch register of members and register of Warrants respectively will be subject to Hong Kong stamp duty. The duty is charged at the current rate of 0.2% of the consideration or, if higher, the fair value of the Shares or Warrants being sold or transferred (the buyer and seller each paying half of such stamp duty). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares. Profits from dealings in the Shares and/or Warrants arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. The Shares and Warrants are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) (as amended) and accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares and/or Warrants.

### (b) Cayman Islands

Under present Cayman Islands law, transfer or other dispositions of Shares and Warrants are exempted from Cayman Islands stamp duty.

### (c) Professional tax advice recommended

Intending holders of Shares and Warrants are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares and Warrants or exercising rights attached to them.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 60% of the total sales for the year and sales to the largest customer included therein amounted to approximately 19%.

Purchases from the Group's five largest suppliers accounted for approximately 30% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 7%.

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

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

In the opinion of the Board, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 March 2006, except for the deviation from the CG Code Provision A.2.1. The Company has published its Corporate Governance Report, details of which are set out on pages 22 to 27 of this annual report.

## AUDITORS

The first Financial Statements of the Company for the year ended 31 March 2005 was audited by BDO McCabe Lo & Company, the first auditors of the Company.

The accompanying Financial Statements for the year ended 31 March 2006 have been audited by BDO McCabe Lo Limited.



# Report of The Directors

## **AUDITORS (Continued)**

On 1 August 2005, the practice of BDO McCabe Lo & Company was reorganised as BDO McCabe Lo Limited (collectively "BDO"). Accordingly, BDO will retire at the forthcoming annual general meeting of the Company and a resolution will also be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO McCabe Lo Limited as auditors of the Company.

Save as disclosed above, there have been no other changes of the auditors of the Company in the past three years.

## **CHARITABLE DONATIONS**

During the year, the Group made charitable donations amounting to HK\$3,000.

## **OTHER DISCLOSURE**

Save as disclosed, the Group either has had no material changes from the information disclosed in the latest annual report of the Company or are considered not significant to the Group's operations, and thus no additional disclosure has been made in this report.

On behalf of the Board

**KENFORD GROUP HOLDINGS LIMITED**

**Lam Wai Ming**

*Chairman*

Hong Kong, 14 July 2006