## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability with its shares listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information of this Report.

The Company is an investment holding company. Its subsidiaries are principally engaged in the contract manufacturing - OEM products and rechargeable battery products. With the acquisition of a controlling stake of 61.8% of Spear & Jackson, Inc. ("S&J") on 28 July 2006, the Group's traditional business activities widened to encompass the activities of the S&J and its subsidiaries which are principally engaged in the manufacture and trading of tools, metrology and magnetic products.

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

The consolidated financial statements for the current period cover the six-month period ended 30 September 2006. The corresponding comparative amounts shown for the consolidated income statement, consolidated statement of recognised income and expense, consolidated cash flow statement and related notes cover a year ended 31 March 2006 and therefore may not be comparable with amounts shown for the current period. The consolidated financial statements from 1 April 2006 to 30 September 2006 cover a period of less than 12 months because the directors of the Company determined to align the balance sheet date in line with that of S&J in order to facilitate the preparation and presentation of the consolidated financial statements of the Group.

## 2. APPLICATION HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, 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/revised HKFRSs has resulted in the adoption of an accounting policy in relation to the actuarial gains and losses as follow:

### Actuarial gains and losses

In the current year, the Group has applied HKAS 19 (Amendment) "Actuarial Gains and Losses, Group Plans and Disclosures" which is effective for annual periods beginning on or after 1 January 2006.

Prior to 1 April 2006, the Group has no defined benefit plan.

After the acquisition of S&J during the period, on the adoption of HKAS 19 (Amendment), the Group has adopted an accounting policy to recognise actuarial gains and losses in the consolidated statement of recognised income and expense. Since there was no defined benefit plan in prior periods, no prior period adjustment has been required. The effect of application of the accounting policy has resulted in a decrease in equity and an increase in retirement benefit obligations of HK$10,656,251.

## 2. APPLICATION HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

At the date of authorisation of these consolidated financial statements, the following standards and interpretations and amendments were in issue but not yet effective for the periods covered by these consolidated financial statements:

| | |
|---|---|
| HKAS 1 (Amendment) | Capital disclosures [1] |
| HKFRS 7 | Financial instruments: Disclosures [1] |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2 [2] |
| HK(IFRIC) – INT 9 | Reassessment of embedded derivatives [3] |
| HK(IFRIC) – INT 10 | Interim Financial Reporting and Impairment [4] |

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 May 2006.
3 Effective for annual periods beginning on or after 1 June 2006.
4 Effective for annual periods beginning on or after 1 November 2006.

The Group has not early applied of the above HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKFRSs will have no material impact on the results and the financial position of the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments which are measured at fair values, as explained in the principal accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired and disposed of during the period are included in the consolidated income statement from and up to their effective dates of acquisition and disposal respectively.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group balances, income and expenses are eliminated on consolidation.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Interest in an associate

The result and assets and liabilities of an associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

### Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

For owner-occupied leasehold land and buildings, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land were accounted for as property, plant and equipment and measured using the cost model, as appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

### Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets***

The Group's financial assets are classified into loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including debtors and prepayments, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment loss on available-for-sale financial assets is recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

*Bank borrowings*

Interest-bearing bank loans and overdrafts are initially recognised at fair value, and are subsequently measured at amortised costs, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowings costs.

*Other financial liabilities*

Other financial liabilities including creditors and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct costs and those overhead that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

*Onerous contracts*

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

### Restructuring

A restructuring provision is recognised when the Group has developed a detailed formal plan for restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Group.

### Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its 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. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, 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 periods. A reversal of an impairment loss is recognised as income immediately.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation

Taxation represents the sum of the tax paid or currently payable and deferred tax.

The tax currently paid and payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**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.

*The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

*The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Assets held under finance leases are recognised as assets of the Group at fair values at inception of the lease or, if lower, at the present value of the minimum lease payments. 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 charges are charged directly to profit or loss.

**Retirement benefits costs**

Payments to the defined contribution retirement plan are charged as expenses when employees have rendered service entitling them to the contributions.

The Group operates a defined contribution retirement benefits scheme under the Mandatory Provident Fund Schemes Ordinance (the "MPF Scheme"), for employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Retirement benefits costs** *(Continued)*

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. All actuarial gains and losses of defined benefit plans are recognised immediately in accumulated profits in the period in which they occur and presented in the consolidated statement of recognised income and expense. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

**Share-based payment transactions**

***Equity-settled share-based payment transactions***

*Share options granted to directors of the Company and employees of the Group*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profits.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are disclosed below.

### Inventories

Inventories are measured at lower of cost and net realisable value. The management of the Group reviews the carrying amount of the inventory at each balance sheet date, and makes allowance for inventory items identified, if any, to be carried at lower recoverable value through estimation of the expected selling prices under the current market conditions. As at 30 September 2006, the carrying amount of the inventories is HK$256,311,934 after deducting the write-off of HK$5,239,023 charged to the income statement during the period as a result of deficiency in quality control process.

### Income taxes

As at 30 September 2006, a deferred tax asset of HK$116,628,250 mainly in relation to the retirement benefit obligations and unused tax losses has been recognised in the Group's balance sheet based on estimation of future profit streams. No deferred tax asset has been recognised on the tax losses, capital losses, other temporary differences and other tax credits amounted to HK$1,076,496,000. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a reversal takes place. Details of the deductible temporary differences are disclosed in note 27.

### Provisions

The Group's provisions as at 30 September 2006 were HK$31,417,500. The Group has recognised provisions based on the best estimate of the expenditure required to settle the present obligation at the balance sheet date which is the amount that the Group would pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time. The estimates of the outcome and the financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the balance sheet date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Details of the provisions are disclosed in note 25.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include debtors, bank deposits, creditors, obligations under finance leases and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 30 September 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group is exposed to concentration risk as a significant portion of its business are derived from its largest customers which are mainly engaged in the business of trading and manufacture of electronic products. As at 30 September 2006, trade debtors of HK$52,180,023 (31.3.2006: HK$36,737,960) were contributed by the top five customers of the Group. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by the international credit rating agencies.

### Currency risk

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

### Interest rate risk

The Group's cash flow interest rate risk primarily relates to bank balances, deposits, bank overdrafts and variable-rate bank loans.

The Group's fair value interest rate risk relates primarily to the fixed-rate obligations under finance leases.

The Group currently does not have any risk hedging policy. However, the management monitors interest rate risk exposure and will consider hedging significant risk exposure should the use arises.

## 6. SEGMENT INFORMATION

### Business Segments

The Group's principal activities are the contract manufacturing - OEM products and rechargeable battery products. With the acquisition of S&J during the period, the Group's principal segments widened to encompass the manufacture and trading of tools, metrology and magnetic products. These five business segments are the basis on which the Group reports its primary segment information. Segment information about these businesses is presented as below:

| | Contract manufacturing- OEM products[1] HK$ | Tools HK$ | Contract manufacturing- rechargeable battery products[1] HK$ | Metrology HK$ | Magnetics HK$ | Eliminations HK$ | Consolidated HK$ |
|---|---|---|---|---|---|---|---|
| For the period from 1 April 2006 to 30 September 2006 | | | | | | | |
| **Turnover** | | | | | | | |
| External sales | 250,842,729 | 79,635,250 | 23,057,693 | 22,980,500 | 13,673,250 | — | 390,189,422 |
| Inter-segment sales | 17,800,389 | 2,817,250 | 734 | 2,492,750 | 250,750 | (23,361,873) | — |
| | 268,643,118 | 82,452,500 | 23,058,427 | 25,473,250 | 13,924,000 | (23,361,873) | 390,189,422 |
| Inter-segment sales are charged at prevailing market rates. | | | | | | | |
| **Result** | | | | | | | |
| Segment result | (5,117,078) | 7,360 | (848,905) | 2,883,640 | 1,401,250 | | (1,673,733) |
| Unallocated corporate expenses | | | | | | | (5,221,238) |
| Interest income | | | | | | | 1,754,357 |
| Share of results of an associate | | | | | | | 236,000 |
| Discount on acquisition | | | | | | | 26,200,681 |
| Finance costs | | | | | | | (2,533,260) |
| Profit before taxation | | | | | | | 18,762,807 |
| Income tax credit | | | | | | | 815,228 |
| Profit for the period | | | | | | | 19,578,035 |
| **Other information** | | | | | | | |
| Additions of property, plant and equipment | 3,764,888 | 1,961,750 | 515,058 | 545,750 | — | | 6,787,446 |
| Share- based payment expenses | 126,000 | — | — | — | — | | 126,000 |
| Depreciation of property, plant and equipment | 4,292,467 | 1,224,250 | 114,533 | 737,500 | 265,500 | | 6,634,250 |

*Note (1):* These segments were previously named as voltage converters, coils and components for electronics/electrical/mechanical products and rechargeable battery products.

## 6. SEGMENT INFORMATION *(Continued)*

**Business Segments** *(Continued)*

| | Contract manufacturing-OEM products[1] HK$ | Tools HK$ | Contract manufacturing-rechargeable battery products[1] HK$ | Metrology HK$ | Magnetics HK$ | Combined HK$ |
|---|---|---|---|---|---|---|
| As at 30 September 2006 | | | | | | |
| **Balance sheet** | | | | | | |
| Assets | | | | | | |
| Segment assets | 221,910,508 | 325,901,250 | 15,935,688 | 107,291,500 | 46,816,500 | 717,855,446 |
| Unallocated corporate assets | | | | | | 488,375,119 |
| Total assets | | | | | | 1,206,230,565 |
| Liabilities | | | | | | |
| Segment liabilities | 119,800,077 | 222,518,500 | 2,515,500 | 43,011,000 | 49,235,500 | 437,080,577 |
| Unallocated corporate liabilities | | | | | | 542,322,152 |
| Total liabilities | | | | | | 979,402,729 |

*Note (1):* These segments were previously named as voltage converters, coils and components for electronics/electrical/mechanical products and rechargeable battery products.

## 6. SEGMENT INFORMATION *(Continued)*

**Business Segments** *(Continued)*

| | Contract manufacturing-OEM products[1] HK$ | Contract manufacturing-rechargeable battery products[1] HK$ | Eliminations HK$ | Consolidated HK$ |
|---|---|---|---|---|
| For the year ended 31 March 2006 | | | | |
| **Turnover** | | | | |
| External sales | 409,054,175 | 45,284,756 | — | 454,338,931 |
| Inter-segment sales | 30,410,741 | 5,079,490 | (35,490,231) | — |
| | 439,464,916 | 50,364,246 | (35,490,231) | 454,338,931 |

Inter-segment sales are charged at prevailing market rates.

| | Contract manufacturing-OEM products[1] HK$ | Contract manufacturing-rechargeable battery products[1] HK$ | Eliminations HK$ | Consolidated HK$ |
|---|---|---|---|---|
| **Result** | | | | |
| Segment result | 21,051,363 | 297,331 | | 21,348,694 |
| Unallocated corporate expenses | | | | (1,639,020) |
| Interest income | | | | 1,330,019 |
| Gain arising from change in fair value of investment properties | | | | 1,000,000 |
| Finance costs | | | | (2,028,022) |
| Profit before taxation | | | | 20,011,671 |
| Income tax charge | | | | (4,357,611) |
| Profit for the year | | | | 15,654,060 |
| **Other information** | | | | |
| Additions of property, plant and equipment | 10,153,713 | 517,235 | | 10,670,948 |
| Impairment loss on goodwill | — | 628,931 | | 628,931 |
| Share-based payment expenses | 250,273 | — | | 250,273 |
| Depreciation of property, plant and equipment | 10,794,652 | 668,352 | | 11,463,004 |
| Gain on disposal of property, plant and equipment | 307,031 | — | | 307,031 |

*Note (1):* These segments were previously named as voltage converters, coils and components for electronics/electrical/mechanical products and rechargeable battery products.

## 6. SEGMENT INFORMATION *(Continued)*

**Business Segments** *(Continued)*

| | Contract manufacturing- OEM products[1] HK$ | Contract manufacturing- rechargeable battery products[1] HK$ | Consolidated HK$ |
|---|---|---|---|
| As at 31 March 2006 | | | |
| **Balance sheet** | | | |
| Assets | | | |
| Segment assets | 195,045,096 | 9,335,022 | 204,380,118 |
| Unallocated corporate assets | | | 67,931,357 |
| Total assets | | | 272,311,475 |
| Liabilities | | | |
| Segment liabilities | 58,464,773 | 1,484,551 | 59,949,324 |
| Unallocated corporate liabilities | | | 39,788,643 |
| Total liabilities | | | 99,737,967 |

*Note (1):* These segment were previously named as voltage converters, coils and components for electronics/electrical/mechanical products and rechargeable battery products.

## 6. SEGMENT INFORMATION *(Continued)*

### Geographical Segments

The Group's operations are mainly located in Mainland China, Hong Kong, Mainland Europe, the United Kingdom ("UK"), Australasia, Malaysia and elsewhere in Asia. The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

| | Turnover by geographical market | |
|---|---|---|
| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
| The People's Republic of China (the "PRC") | | |
| Mainland China | 24,617,224 | 35,642,855 |
| Hong Kong | 46,921,764 | 77,620,445 |
| | 71,538,988 | 113,263,300 |
| United States of America, South America and Canada | 95,460,694 | 166,183,443 |
| Mainland Europe (excluding UK) | 87,579,254 | 138,606,034 |
| UK | 70,678,826 | — |
| Australasia | 20,812,250 | — |
| Malaysia | 12,009,260 | 19,514,245 |
| Asia (excluding the PRC and Malaysia) | 15,950,754 | 16,771,909 |
| Others | 16,159,396 | — |
| | 390,189,422 | 454,338,931 |

## 6. SEGMENT INFORMATION *(Continued)*

**Geographical Segments** *(Continued)*

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by the geographical areas in which the assets are located:

| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
|---|---|---|
| Carrying amount of segment assets | | |
| UK | 323,688,750 | — |
| Hong Kong | 149,397,853 | 125,844,269 |
| Mainland China | 97,473,876 | 78,442,849 |
| Australasia | 65,829,250 | — |
| Mainland Europe (excluding UK) | 69,502,000 | — |
| United States of America and Canada | 11,963,717 | 93,000 |
| | 717,855,446 | 204,380,118 |

| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
|---|---|---|
| Additions to property, plant and equipment | | |
| Mainland China | 2,225,068 | 2,905,484 |
| Hong Kong | 2,125,563 | 7,674,255 |
| UK | 1,858,500 | — |
| Others | 578,315 | 91,209 |
| | 6,787,446 | 10,670,948 |

## 7. OTHER INCOME

| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
|---|---|---|
| Other income comprises: | | |
| Exchange gain | 1,416,068 | — |
| Gain on disposal of property, plant and equipment | — | 307,031 |
| Interest earned on bank deposits and balances | 1,754,357 | 1,330,019 |
| Property rental income net of outgoings | 840,750 | 560,953 |
| Others | 904,644 | 284,259 |
| | 4,915,819 | 2,482,262 |

## 8. FINANCE COSTS

| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
|---|---|---|
| Interests on: | | |
| Bank borrowings wholly repayable within five years | 2,347,654 | 1,937,968 |
| Obligations under finance leases | 185,606 | 90,054 |
| Total finance costs | 2,533,260 | 2,028,022 |

## 9. PROFIT BEFORE TAXATION

| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Directors' remuneration *(Note 10)* | 1,130,142 | 3,210,469 |
| Staff salaries, allowances and welfare | 44,163,523 | 35,235,452 |
| Provident fund contributions | 1,293,733 | 1,215,167 |
| Mandatory provident fund contributions | 473,609 | 434,513 |
| Share-based payment expenses to other employees | 39,258 | 78,517 |
| Expenses on retirement benefit plan | 2,315,750 | — |
| Direct labour costs | 26,908,892 | 21,442,420 |
| Total staff costs | 76,324,907 | 61,616,538 |
| Release of prepaid lease payments | 8,697 | 17,394 |
| Impairment loss on goodwill | — | 628,931 |
| Auditors' remuneration | 3,009,330 | 923,774 |
| Exchange loss | — | 882,623 |
| Depreciation of property, plant and equipment | 6,634,250 | 11,463,004 |
| Allowance for bad and doubtful debts | 1,618,723 | 640,697 |
| Write-off of inventories *(Note)* | 5,239,023 | — |
| Minimum lease payments in respect of rented premises | 4,132,920 | 4,566,130 |
| Cost of inventories recognised as expenses | 329,817,356 | 392,598,589 |

*Note:* During the period, raw materials and finished goods amounting to HK$5,239,023 (1.4.2005 to 31.3.2006: nil) were written off by the Group as a result of a deficiency in the quality control process.

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 8 (1.4.2005 to 31.3.2006: 10) directors were as follows:

| | Fees HK$ | Basic salaries and allowances HK$ | Retirement benefits scheme contribution HK$ | Share-based payment expenses HK$ | Consulting fee HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| For the period from 1 April 2006 to 30 September 2006 | | | | | | |
| *Executive directors:* | | | | | | |
| Mr. Brian C Beazer | — | — | — | 24,783 | 467,400 | 492,183 |
| Mr. David H Clarke | 50,000 | — | — | 12,392 | — | 62,392 |
| Mr. Simon N Hsu | — | 240,000 | 6,000 | 49,567 | — | 295,567 |
| *Non-executive directors:* | | | | | | |
| Dr. Wong Ho Ching, Chris* | 90,000 | — | — | — | — | 90,000 |
| Mr. Ng Ching Wo | 50,000 | — | — | — | — | 50,000 |
| Mr. Ramon Sy Pascual* | 50,000 | — | — | — | — | 50,000 |
| Mr. Teo Ek Tor | — | — | — | — | — | — |
| Mr. Henry W Lim* | 90,000 | — | — | — | — | 90,000 |
| | 330,000 | 240,000 | 6,000 | 86,742 | 467,400 | 1,130,142 |

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

| | Fees HK$ | Basic salaries and allowances HK$ | Retirement benefits scheme contribution HK$ | Share-based payment expenses HK$ | Consulting fee HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| Year ended 31 March 2006 | | | | | | |
| *Executive directors:* | | | | | | |
| Mr. Brian C Beazer | — | — | — | 49,073 | 934,800 | 983,873 |
| Mr. David H Clarke | 100,000 | — | — | 24,537 | — | 124,537 |
| Mr. Simon N Hsu | — | 480,000 | 12,000 | 98,146 | — | 590,146 |
| Mr. Wong Hei Pui, Andy (resigned on 31 July 2005) | — | 948,913 | 3,000 | — | — | 951,913 |
| *Non-executive directors:* | | | | | | |
| Dr. Wong Ho Ching, Chris* | 180,000 | — | — | — | — | 180,000 |
| Mr. Ng Ching Wo | 100,000 | — | — | — | — | 100,000 |
| Mr. Ramon Sy Pascual* | 100,000 | — | — | — | — | 100,000 |
| Mr. Teo Ek Tor | — | — | — | — | — | — |
| Mr. Henry W Lim* | 180,000 | — | — | — | — | 180,000 |
| Mr. Ho Che Kong (resigned on 15 June 2005) | — | — | — | — | — | — |
| | 660,000 | 1,428,913 | 15,000 | 171,756 | 934,800 | 3,210,469 |

* *Independent non-executive directors*

None of the directors has waived any emoluments during period.

The management considers that the directors of the Company are the key management of the Group.

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

**Employees' emoluments**

The five highest paid individuals of the Group included one (1.4.2005 to 31.3.2006: two) director, details of whose emoluments are set out above. The emoluments of the four (1.4.2005 to 31.3.2006: three) highest paid employees for the period from 1 April 2006 to 30 September 2006, other than the director of the Company, were as follows:

| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
|---|---|---|
| Salaries and other benefits | 2,132,000 | 2,695,143 |
| Mandatory provident fund contribution | 24,000 | 36,000 |
| | 2,156,000 | 2,731,143 |

Emoluments of these employees were within the following bands:

| | Number of employees | |
|---|---|---|
| | 1.4.2006 to 30.9.2006 | 1.4.2005 to 31.3.2006 |
| Nil – HK$1,000,000 | 4 | 3 |

## 11. INCOME TAX CREDIT (CHARGE)

| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
|---|---|---|
| The credit (charge) for the period/year comprises: | | |
| Current taxation | | |
| Hong Kong | — | (1,882,042) |
| Mainland China | (116,000) | (1,421,249) |
| France | 73,750 | — |
| New Zealand | (44,250) | — |
| | (86,500) | (3,303,291) |
| Underprovision in prior periods | — | (66,320) |
| Deferred taxation *(note 27)* | 901,728 | (988,000) |
| | 815,228 | (4,357,611) |

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group did not have any assessable profit for the period. Hong Kong Profits Tax was calculated at 17.5% of the estimated assessable profit for previous year. Taxation arising from other jurisdiction is calculated at the rates prevailing in the respective jurisdictions.

## 11. INCOME TAX CREDIT (CHARGE) *(Continued)*

The total credit (charge) for the period/year can be reconciled to the profit per the consolidated income statement as follows:

| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
|---|---|---|
| Profit before taxation | 18,762,807 | 20,011,671 |
| Tax at the average income tax rate of 18.46% (1.4.2005 to 31.3.2006: 16.25%) | (3,463,614) | (3,251,897) |
| Tax effect of expenses not deductible for tax purposes | (747,782) | (1,505,730) |
| Tax effect of income not taxable for tax purposes | 5,176,750 | 596,272 |
| Tax effect of tax loss not recognised | (260,714) | (199,248) |
| Utilisation of tax losses previously not recognised | 110,588 | 166,411 |
| Effect of different tax rate of subsidiaries operating in other jurisdictions | — | (97,099) |
| Underprovision in the prior periods | — | (66,320) |
| Taxation credit (charge) for the period/year | 815,228 | (4,357,611) |

## 12. DIVIDEND

The directors of the Company do not recommend the payment of a dividend for the period/year.

## 13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

| | 1.4.2006 to 30.9.2006 HK$ | 1.4.2005 to 31.3.2006 HK$ |
|---|---|---|
| Earnings | | |
| Earnings for the purposes of basic earnings per share (profit for the period/year attributable to equity holders of the Company) | **19,008,950** | 15,654,060 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **557,058,400** | 557,058,400 |

Diluted earnings per share has not been presented because the exercise price of the Company's share options was higher than the average market price of shares for the period/year.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK$ | Furniture, fixtures and equipment HK$ | Motor vehicles HK$ | Plant and machinery HK$ | Total HK$ |
|---|---|---|---|---|---|
| COST | | | | | |
| At 1 April 2005 | 38,767,634 | 26,265,065 | 3,853,377 | 52,705,525 | 121,591,601 |
| Additions | — | 7,450,937 | 773,099 | 2,446,912 | 10,670,948 |
| Disposals | (21,196,520) | (739,662) | — | (180,884) | (22,117,066) |
| At 1 April 2006 | 17,571,114 | 32,976,340 | 4,626,476 | 54,971,553 | 110,145,483 |
| Currency realignment | 3,331,468 | 558,564 | 316,715 | 2,261,593 | 6,468,340 |
| Additions | — | 4,136,007 | 1,371,750 | 1,279,689 | 6,787,446 |
| Acquired on acquisition of subsidiaries | 167,223,393 | 3,088,138 | 6,147,279 | 13,164,456 | 189,623,266 |
| **At 30 September 2006** | **188,125,975** | **40,759,049** | **12,462,220** | **71,677,291** | **313,024,535** |
| DEPRECIATION, AMORTISATION AND IMPAIRMENT | | | | | |
| At 1 April 2005 | 13,402,704 | 17,691,985 | 3,779,558 | 38,281,496 | 73,155,743 |
| Provided for the year | 386,123 | 3,819,092 | 185,366 | 7,072,423 | 11,463,004 |
| Eliminated on disposals | (10,272,779) | (541,178) | — | (95,208) | (10,909,165) |
| At 1 April 2006 | 3,516,048 | 20,969,899 | 3,964,924 | 45,258,711 | 73,709,582 |
| Currency realignment | 91,572 | 413,275 | 144,504 | 1,726,312 | 2,375,663 |
| Provided for the period | 969,938 | 2,407,496 | 933,797 | 2,323,019 | 6,634,250 |
| **At 30 September 2006** | **4,577,558** | **23,790,670** | **5,043,225** | **49,308,042** | **82,719,495** |
| CARRYING VALUES | | | | | |
| **At 30 September 2006** | **183,548,417** | **16,968,379** | **7,418,995** | **22,369,249** | **230,305,040** |
| At 31 March 2006 | 14,055,066 | 12,006,441 | 661,552 | 9,712,842 | 36,435,901 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Freehold land | Nil |
| Buildings | Over the remaining unexpired terms of the leases or fifty periods, whichever the shorter |
| Furniture, fixtures and equipment | 10% - 25% |
| Motor vehicles | 20% - 25% |
| Plant and machinery | 10% - 33⅓% |

The carrying value of properties shown above comprises:

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| Properties outside Hong Kong held under | | |
| Freehold | 169,300,500 | — |
| Long term leases | 2,122,884 | 2,147,057 |
| Medium term leases | 12,125,033 | 11,908,009 |
| | 183,548,417 | 14,055,066 |

The net book values of furniture, fixtures and equipment and motor vehicles of HK$16,968,379 (31.3.2006: HK$12,006,441) and HK$7,418,995 (31.3.2006: nil) include amounts of HK$3,944,395 (31.3.2006: HK$4,430,053) and HK$6,814,500 (31.3.2006: nil) respectively in respect of assets held under finance leases.

## 15. PREPAID LEASE PAYMENTS

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| The Group's prepaid lease payments comprise: | | |
| Medium-term land use right in the PRC | 659,217 | 667,914 |

## 16. INTEREST IN AN ASSOCIATE

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| Cost of unlisted investment in an associate | 2,856,165 | — |
| Currency realignment | 49,585 | — |
| Share of post-acquisition profits | 236,000 | — |
| | 3,141,750 | — |

As at 30 September 2006, the Group had interest in the following associate:

| Name of entity | Form of business structure | Place of registration | Principal place of operation | Nominal value of registered capital | Proportion of nominal value of registered capital held by the Group | Proportion of voting power held | Principal activity |
|---|---|---|---|---|---|---|---|
| Ningbo Hi-tech Magnetics Assemblies Co Ltd | Sino-foreign joint venture | PRC | PRC | RMB6,559,293 | 25% | 25% | Production of magnetic, plastic and other materials and magnetic assemblies |

The summarised financial information in respect of the Group's associate is set out below:

| | 30.9.2006<br>HK$ |
|---|---|
| Total assets | 23,043,839 |
| Total liabilities | (10,476,839) |
| Net assets | 12,567,000 |
| Group's share of net assets of an associate | 3,141,750 |
| Revenue | 11,269,544 |
| Profit for the period since acquisition | 944,000 |
| Group's share of result of an associate for the period | 236,000 |

## 17. AVAILABLE-FOR-SALE INVESTMENTS

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| Available-for-sale investments as at 30 September 2006 comprises: | | |
| Unlisted equity investments, at cost *(Note (a))* | 1,643,700 | 773,450 |
| Impairment loss | (773,450) | (773,450) |
| | 870,250 | — |
| Equity securities listed in Hong Kong, fair value at 30 September 2006 *(Note (b))* | — | — |

*Notes:*

(a) The above unlisted investments represent investments in unlisted equity securities issued by private entities incorporated in the United States of America, France and India. They are measured at cost less impairment loss at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Two of the investments included in unlisted equity securities above, where the Group has an investment of significance, are Bowers Metrologie SARL ("BML") and Bipico Industries (Tools) Private Limited ("BITPL").

BML is a company incorporated and operating in France, with a carrying amount of HK$280,250 (31.3.2006: nil). The investment represents a 35% holding of the issued share capital of BML. BML is not regarded as an associate of the Group because the Group has less than one-fifth of the voting power of BML under arrangements with other investors and the Group has no right to appoint directors of BML.

BITPL is a company incorporated and operating in India, with a carrying amount of HK$590,000 (31.3.2006: nil). The investment represents a 30% holding of the issued ordinary share capital of BITPL. BITPL is not regarded as an associate of the Group because the Group has less than one-fifth of the voting power of BITPL under arrangements with other investors and the Group has no right to appoint directors of BITPL.

Both of the companies are not considered to be associates undertaking since the Group does not possess the ability to exercise significant influence over the companies.

(b) This represents the Group's investment in the shares of Climax International Company Limited ("CICL"), a company incorporated in Bermuda with its shares listed on The Stock Exchange, representing approximately a 1.01% (31.3.2006: 1.15%) of the issued share capital of CICL as at 30 September 2006.

In the opinion of the directors, in view of the low volume of transactions in the market for CICL's shares, it is difficult to dispose of the entire shares in the market. Hence, the fair value of CICL's shares held by the Group is estimated to be approximately nil.

## 18. INVENTORIES

| | 30.9.2006 HK$ | 31.3.2006 HK$ |
|---|---|---|
| Raw materials | 75,420,419 | 39,615,425 |
| Work in progress | 35,407,954 | 8,596,405 |
| Finished goods | 145,483,561 | 24,435,542 |
| | 256,311,934 | 72,647,372 |

## 19. DEBTORS AND PREPAYMENTS

Debtors and prepayments include trade debtors of HK$248,588,278 (31.3.2006: HK$90,276,351). The aged analysis of trade debtors at the balance sheet date is as follows:

| | 30.9.2006 HK$ | 31.3.2006 HK$ |
|---|---|---|
| 0 - 60 days | 205,848,801 | 65,839,235 |
| 61 - 90 days | 13,210,178 | 8,782,181 |
| 91 - 120 days | 5,667,686 | 6,805,168 |
| > 120 days | 23,861,613 | 8,849,767 |
| | 248,588,278 | 90,276,351 |

The Group allows an average credit period ranged from 90 to 120 days (31.3.2006: 90 to 120 days) to its trade customers.

The directors consider that the carrying amount of the debtors approximates its fair value.

## 20. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to HK$5,000,000 (31.3.2006: HK$5,000,000) have been pledged to secure trust receipt and export invoices financing facilities and are therefore classified as current assets.

The deposits carry interest at prevailing market rate. The directors consider the carrying value of the amount at the balance sheet date approximates its fair value.

## 21. BANK BALANCES AND CASH

Bank balances and cash include short-term bank deposits carrying interest at prevailing market rates. The directors consider the carrying value of the amount at the balance sheet date approximates to the fair value.

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

| | 30.9.2006<br>US$ | 31.3.2006<br>US$ |
|---|---|---|
| United States Dollars | 5,314,927 | 3,103,884 |

## 22. CREDITORS AND ACCRUED CHARGES

Creditors and accrued charges included trade creditors of HK$166,001,588 (31.3.2006: HK$48,567,099). The aged analysis of trade creditors at the reporting date is as follows:

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| 0 - 60 days | 160,090,742 | 45,884,180 |
| 61 - 90 days | 3,719,867 | 488,964 |
| > 90 days | 2,190,979 | 2,193,955 |
| | 166,001,588 | 48,567,099 |

The directors consider that the carrying amount of the creditors and accrued charges approximates its fair value.

## 23. BANK OVERDRAFTS/BANK BORROWINGS

| | 30.9.2006 HK$ | 31.3.2006 HK$ |
|---|---|---|
| Bank overdrafts | 170,790,250 | — |
| Bank borrowings comprise: | | |
| Export invoices financing | 27,264,682 | 25,452,677 |
| Trust receipts/import loans | 15,880,209 | — |
| Other bank loans | 34,224,056 | 7,501,534 |
| | 77,368,947 | 32,954,211 |
| | 248,159,197 | 32,954,211 |
| Analysed as: | | |
| Secured | 193,963,811 | 32,954,211 |
| Unsecured | 54,195,386 | — |
| | 248,159,197 | 32,954,211 |
| Bank borrowings are repayable as follows: | | |
| Within one year or on demand | 54,567,754 | 29,866,358 |
| More than one year, but not exceeding two years | 9,051,193 | 3,087,853 |
| More than two years, but not exceeding five years | 13,750,000 | — |
| | 77,368,947 | 32,954,211 |
| Less: Amount due within one year shown under current liabilities | (54,567,754) | (29,866,358) |
| Amount due after one year | 22,801,193 | 3,087,853 |

The bank borrowings denominated in Hong Kong Dollars, Sterling Pound and Euro carry variable interest rates linked to Hong Kong Dollar Prime Rate, UK bank's Currency Base Rate and Euribor respectively.

The effective interest rates on the Group's floating rate borrowings range from mainly 6% to 12.8% per annum (31.3.2006: 5% to 7.5% per annum).

The fair values of the Group's bank loans, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at balance sheet date approximate their carrying values.

## 24. OBLIGATIONS UNDER FINANCE LEASES

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | 30.9.2006 | 31.3.2006 | 30.9.2006 | 31.3.2006 |
| | HK$ | HK$ | HK$ | HK$ |
| Amount payable under finance leases | | | | |
| Within one year | 6,055,958 | 1,970,208 | 5,611,935 | 1,756,641 |
| In the second to fifth years inclusive | 5,059,964 | 2,534,568 | 4,707,724 | 2,297,265 |
| | 11,115,922 | 4,504,776 | 10,319,659 | 4,053,906 |
| Less: Future finance charges | (796,263) | (450,870) | — | — |
| Present value of lease obligations | 10,319,659 | 4,053,906 | 10,319,659 | 4,053,906 |
| Amount due for settlement within 12 months | | | (5,611,935) | (1,756,641) |
| Amount due for settlement after 12 months | | | 4,707,724 | 2,297,265 |

During the period, the Group has acquired certain motor vehicle fleet under finance lease with lease terms ranging from 4 to 5 years. Interest rates underlying all obligations under finance lease are fixed at respective contract dates ranging from 3.95% to 5.25%. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair values of the Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at balance sheet date approximate their carrying value.

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

## 25. PROVISIONS

| | Onerous contracts HK$ | Manufacturing reorganisation HK$ | Total HK$ |
|---|---|---|---|
| At 1 April 2006 | — | — | — |
| Acquired on acquisition of subsidiaries | 19,181,251 | 15,875,638 | 35,056,889 |
| Exchange difference | 332,999 | 275,612 | 608,611 |
| Utilisation of provision | (545,750) | (3,702,250) | (4,248,000) |
| **At 30 September 2006** | **18,968,500** | **12,449,000** | **31,417,500** |

| | **30.9.2006 HK$** | 31.3.2006 HK$ |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Non-current liabilities | **15,856,250** | — |
| Current liabilities | **15,561,250** | — |
| | **31,417,500** | — |

The provision for onerous contracts represents the present value of the future lease payments that the Group is presently obligated to make under non-cancellable onerous operating lease contracts, less revenue expected to be earned on the lease including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements were applicable. The unexpired term of the leases is 5 years.

The manufacturing reorganisation costs comprise the costs in relation to the closure of the Group's manufacturing site at Wednesbury, UK and the subsequent transfer of all warehouses and distribution operations to the Group's principal UK manufacturing site at Atlas, Sheffield. The closure and relocation of the Wednesbury facility were completed by 30 November 2006 and the costs include employee severance payments, site closure and relocation costs. Additionally the costs include the relocation of the Group's UK magnet production facility from leased premises in Sheffield to the principal UK site at Atlas.

## 26. RETIREMENT BENEFITS PLANS

### Defined contribution plans

*Hong Kong*

With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each required to make contributions to the MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the MPF Scheme. During the period from 1 April 2006 to 30 September 2006, the retirement benefit scheme contributions charged to the consolidated income statement amounting to HK$479,609 (31.3.2006: HK$449,513), which represented contributions payable to the fund by the Group at rates specified in the rules of the MPF Scheme.

*Mainland China*

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiaries are required to contribute 8% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. The total contribution incurred in this connection for the period from 1 April 2006 to 30 September 2006 was HK$1,293,733 (31.3.2006: HK$1,215,167). No forfeited contributions may be used by the employer to reduce the existing level of contributions.

### Defined benefit plan

The Group operates a contributory defined benefit plan covering certain of its employees in UK based subsidiaries of S&J named James Neill Pension Plan ("the Plan"). The benefits covered by the Plan are based on years of service and compensation history. The Plan's assets are held separately from the assets of the Group and are administered by the Plan's trustees and are managed professionally.

The actuarial valuation of the Plan was carried out at 30 September 2006 and 28 July 2006 (date of acquisition of S&J) by PricewaterhouseCoopers LLP respectively.

The Group's contributions for the period from 1 October 2006 to 31 July 2007 are expected to be approximately HK$23.3 million. The rate of employer contributions after that date will be determined by negotiations between the Plan's trustees, the Plan's actuary and the principal employer. If no agreement is reached by 31 July 2007, contributions will be increased to approximately HK$51.6 million per annum.

## 26. RETIREMENT BENEFITS PLANS *(Continued)*

**Defined benefit plan** *(Continued)*

The principal financial assumptions used for the purpose of the actuarial valuations were as follows:

| | 30.9.2006 | 28.7.2006 |
|---|---|---|
| Long term rate of increase in pensionable salaries | 3.10% | 3.10% |
| Rate of increase of benefits in payment *(note (a))* | 2.80% | 2.80% |
| Rate of increase of benefits in payment *(note (b))* | 2.50% | 2.50% |
| Discount rate | 5.05% | 5.15% |
| Inflation assumption | 3.00% | 3.00% |
| Expected return on equities | 8.20% | 8.30% |
| Expected return on bonds | 5.05% | 5.15% |
| Expected return on cash | 4.75% | 4.75% |

*Notes:*

(a) In respect of pensions in excess of the guaranteed minimum pension in the 1999 and 2001 sections of the Plan.

(b) In respect of guaranteed minimum pension earned after 6 April 1988.

The expected return on assets assumption has been derived by considering the appropriate return for each of the main asset classes. The yields assumed on bond type investments are based on published redemption yields at the balance sheet date. The assumed return on equities reflects an assumed allowance for the out-performance of these asset classes over UK Government bonds in the long-term. The assumed return on cash reflects the UK prevailing market interest rate on bank balances. The rates of return are shown net of investment manager expenses.

The life expectancies implied by the mortality assumption used in the actuarial valuation are (making allowance for projected future improvements in mortality):

| | | |
|---|---|---|
| Pensioner currently aged 70: | Male 14.5 years | Female 17.3 years |
| Future pensioner when aged 65: | Male 19.4 years | Female 22.4 years |

## 26. RETIREMENT BENEFITS PLANS *(Continued)*

**Defined benefit plan** *(Continued)*

The amount recognised in the consolidated balance sheet in respect of the defined benefit plan is as follows:

| | 30.9.2006<br>HK$ | 28.7.2006<br>HK$ |
|---|---|---|
| Fair value of plan assets: | | |
| Equities | 740,951,500 | 715,636,088 |
| Bonds | 692,261,750 | 665,312,489 |
| Cash | 7,566,750 | 10,076,319 |
| Insurance policies | 26,830,250 | 26,415,903 |
| | 1,467,610,250 | 1,417,440,799 |
| Present value of funded obligations | (1,879,386,000) | (1,814,201,277) |
| Net liability recognised in the balance sheet | (411,775,750) | (396,760,478) |

Amount recognised in the consolidated income statement in respect of the defined benefit plan is as follows:

| | 28.7.2006<br>to<br>30.9.2006<br>HK$ |
|---|---|
| Current service cost | 1,976,500 |
| Expected return on plan assets | (15,930,000) |
| Interest on obligation | 16,269,250 |
| | 2,315,750 |

The charge for the period is included in the staff costs in the consolidated income statement. The actual return on the plan assets was HK$35.2 million.

## 26. RETIREMENT BENEFITS PLANS *(Continued)*

**Defined benefit plan** *(Continued)*

Movements in the present value of the defined benefit obligations in the current period are as follows:

| | HK$ |
|---|---|
| At 1 April 2006 | — |
| Acquisition of subsidiaries | 1,814,201,277 |
| Currency realignment | 32,009,946 |
| Current service cost | 1,976,500 |
| Interest cost | 16,269,250 |
| Contributions by plan participants | 973,500 |
| Benefits paid | (15,664,500) |
| Actuarial losses | 29,620,027 |
| **At 30 September 2006** | **1,879,386,000** |

Movements in the fair value of the plan assets in the current period are as follows:

| | HK$ |
|---|---|
| At 1 April 2006 | — |
| Acquisition of subsidiaries | 1,417,440,799 |
| Currency realignment | 24,936,925 |
| Contributions by employer | 5,029,750 |
| Contributions by plan participants | 973,500 |
| Expected return on plan assets | 15,930,000 |
| Benefits paid | (15,664,500) |
| Actuarial gains | 18,963,776 |
| **At 30 September 2006** | **1,467,610,250** |

The amount recognised in the Consolidated Statement of Recognised Income and Expense for the period ended 30 September 2006 is as follows:

| | HK$ |
|---|---|
| Actuarial losses | 10,656,251 |

## 26. RETIREMENT BENEFITS PLANS *(Continued)*

**Defined benefit plan** *(Continued)*

The history of experience adjustments is as follows:

| | HK$ |
|---|---|
| Present value of defined benefit obligation | (1,879,386,000) |
| Fair value of plan assets | 1,467,610,250 |
| Deficit | (411,775,750) |
| Experience loss adjustment on Plan liabilities over period | (29,620,027) |
| Experience gain adjustment on Plan assets over period | 18,963,776 |

The actuarial valuation showed that the market value of plan assets was HK$1,467,610,250 and that the actuarial value of these assets represented 78% of the benefits that had accrued to members. The shortfall of HK$411,775,750 is to be cleared in accordance with current UK pensions legislation and after consultation with, and agreement by, the Trustees of the Plan. The Group currently estimates that the shortfall will be cleared in approximately 10 years, subject to agreement by the Trustees and the UK Pensions Regulator.

## 27. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior periods:

| | Accelerated tax depreciation HK$ | Accelerated accounting depreciation HK$ | Revaluation of properties HK$ | Retirement benefit obligations HK$ | Tax losses HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| At 1 April 2005 | (558,508) | — | — | — | — | (558,508) |
| Charged to consolidated income statement | (988,000) | — | — | — | — | (988,000) |
| At 31 March 2006 | (1,546,508) | — | — | — | — | (1,546,508) |
| Acquisition of subsidiaries | — | 6,669,218 | (20,776,064) | 94,601,408 | 13,338,436 | 93,832,998 |
| (Charged) credited to consolidated income statement | (278,496) | — | 118,000 | — | 1,062,224 | 901,728 |
| Exchange differences | — | 145,282 | (360,686) | 1,642,342 | 231,564 | 1,658,502 |
| **At 30 September 2006** | **(1,825,004)** | **6,814,500** | **(21,018,750)** | **96,243,750** | **14,632,224** | **94,846,720** |

## 27. DEFERRED TAXATION *(Continued)*

For the purposes of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| Deferred tax liabilities | (21,781,530) | (1,546,508) |
| Deferred tax assets | 116,628,250 | — |
| | 94,846,720 | (1,546,508) |

At the balance sheet date, based on the estimation of future profit streams, the Group has unrecognised deferred tax assets (before applying tax rates prevailing in the respective jurisdictions) in respect of unused tax losses, capital losses, other temporary differences and other tax credits available for offset against future profits. These are analysed as follows:

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| Unused tax losses | 397,603,000 | 164,560,000 |
| Capital losses | 118,000,000 | — |
| Other temporary differences | 154,039,000 | — |
| Other tax credits | 406,854,000 | — |
| | 1,076,496,000 | 164,560,000 |

The tax losses and other tax credits may be carried forward indefinitely.

## 28. SHARE CAPITAL

| | 30.9.2006 & 31.3.2006 HK$ |
|---|---|
| Authorised: | |
| 1,000,000,000 shares of HK$0.1 each | 100,000,000 |

| | Number of shares 30.9.2006 & 31.3.2006 | Amount 30.9.2006 & 31.3.2006 HK$ |
|---|---|---|
| Issued and fully paid: | | |
| Shares of HK$0.1 each | 557,058,400 | 55,705,840 |

There was no change of the Company's authorised, issued and fully paid share capital during both periods.

## 29. RESERVES/MINORITY INTERESTS

| | Reserves | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share premium HK$ | Share option reserve HK$ | Capital redemption reserve HK$ | Capital reserve HK$ | Translation reserve HK$ | Accumulated profits HK$ | Total HK$ | Minority interests HK$ |
| At 1 April 2005 | 13,526,924 | 102,358 | 1,442,200 | 19,870,430 | 1,031,567 | 65,018,061 | 100,991,540 | — |
| Exchange difference arising on translation of foreign operations recognised directly in equity | — | — | — | — | (28,205) | — | (28,205) | — |
| Profit for the year | — | — | — | — | — | 15,654,060 | 15,654,060 | — |
| Total income and expense recognised for the year | — | — | — | — | (28,205) | 15,654,060 | 15,625,855 | — |
| Recognition of equity settled share-based payments | — | 250,273 | — | — | — | — | 250,273 | — |
| At 1 April 2006 | 13,526,924 | 352,631 | 1,442,200 | 19,870,430 | 1,003,362 | 80,672,121 | 116,867,668 | — |
| Exchange difference arising on translation of foreign operations recognised directly in equity | — | — | — | — | (2,306,139) | — | (2,306,139) | (515,894) |
| Recognition of actuarial losses on defined benefit plan | — | — | — | — | — | (6,585,563) | (6,585,563) | (4,070,688) |
| Net expenses recognised directly in equity | — | — | — | — | (2,306,139) | (6,585,563) | (8,891,702) | (4,586,582) |
| Profit for the period | — | — | — | — | — | 19,008,950 | 19,008,950 | 569,085 |
| Total income and expense recognised for the period | — | — | — | — | (2,306,139) | 12,423,387 | 10,117,248 | (4,017,497) |
| Acquisition of subsidiaries | — | — | — | — | — | — | — | 48,028,577 |
| Recognition of equity settled share-based payments | — | 126,000 | — | — | — | — | 126,000 | — |
| **At 30 September 2006** | **13,526,924** | **478,631** | **1,442,200** | **19,870,430** | **(1,302,777)** | **93,095,508** | **127,110,916** | **44,011,080** |

The capital reserve of the Group represented the capital reserve arising on the group reorganisation in 1994.

## 30. SHARE OPTIONS

(a) Pursuant to a special general meeting of the Company held in April 1994, the Company adopted an executives' share option scheme (the "1994 Scheme") for the primary purpose of providing incentives to the executive directors and eligible employees of the Company and its subsidiaries. According to the 1994 Scheme, the Board of Directors of the Company is authorised, at any time within ten periods after the adoption date of the 1994 Scheme, to grant options to eligible participants to subscribe for shares in the Company at a subscription price equal to the higher of the nominal value of the shares and an amount, to be determined by a committee administering the 1994 Scheme, which is not less than 80% of the average of the closing prices of the shares on The SEHK on the five trading days immediately preceding the date of the options are offered to the participant.

The total number of shares in respect of which options may be granted under the 1994 Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual is not permitted to exceed 25% of the maximum number of shares that may be issued pursuant to the 1994 Scheme without prior approval from the Company's shareholders.

The offer of a grant of share options under the 1994 Scheme may be accepted within 21 days from the date of the offer together with the payment of nominal consideration of HK$1 in total by the grantee. The exercise period shall be determined by the board of directors but not exceeding ten years from the date of grant.

Share options granted under the 1994 Scheme are fully vested immediately at the date of grant. Options granted to a participant are lapsed if the participant ceased to be an eligible participant pursuant to the 1994 Scheme before the options are vested.

| | Date of grant | Exercisable period | Exercise price HK$ |
|---|---|---|---|
| 1994 Scheme | 23.7.2003 | 23.7.2003 - 22.7.2013 | 0.36 |

The movements in the number of options outstanding during the period which have been granted to the directors of the Company under the 1994 Scheme were as follows:

| | Number of options | | | | |
|---|---|---|---|---|---|
| | Outstanding at 1.4.2005 | Lapsed during the year | Outstanding at 1.4.2006 | Lapsed during the period | Outstanding at 30.9.2006 |
| 1994 Scheme | 6,000,000 | (1,000,000) | 5,000,000 | — | 5,000,000 |

### 30. SHARE OPTIONS *(Continued)*

(b) At a special general meeting of the Company held on 30 August 2004, a new share option scheme was adopted (the "2004 Scheme") for the purpose of providing incentives to the executive directors and eligible employees of the Company and its subsidiaries. The Board is authorised to grant options to eligible executive directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company. The number of underlying shares available under the 2004 Scheme shall not, in aggregate, exceed 5% of the issued shares as at 30 August 2004. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12 months is not permitted to exceed 1% of the issued shares at such time. Options to be offered to any participants who is also an executive director, chief executive officer, substantial shareholder of the Company or any of their respective associates ("Connected Persons") shall require prior approval from the independent non-executive directors of the Company. No option can be granted to Connected Persons in any 12 months that exceeds in aggregate over 0.1% of the issued shares and an aggregate value exceeding HK$5 million based on the closing price of the share at the date of each grant without prior approval from the Company's shareholders.

The exercise price of the options shall be determined by a committee administering the 2004 Scheme, and shall fall within the following prescribed parameters: they should not be less than (i) the par value of the shares, (ii) the closing price of the shares on the date of grant which must be a business day, and (iii) the average closing price of the shares over 5 consecutive trading days immediately preceding the date of grant.

The offer of a grant of share options under the 2004 Scheme may be accepted within 30 days from the date of the offer together with the payment of nominal consideration of HK$1 in total by the grantee. Options granted are vested for a period of three years immediately after the date of grant by one-third on each anniversary. The exercise period shall be determined by the board of directors but not exceeding ten years from the date of grant. Options granted to a participant are lapsed if the participant ceased to be an eligible participant pursuant to the 2004 Scheme before the options are vested.

## 30. SHARE OPTIONS *(Continued)*

The movements in the number of share options under the 2004 Scheme during the current financial period are as follows:

| | Date of grant | Exercise price HK$ | Number of options: Granted during the period and outstanding at 31.3.2006 | Lapsed during the period | Outstanding at 30.9.2006 |
|---|---|---|---|---|---|
| Directors | 28.9.2004 | 0.242 | 5,734,425 | — | 5,734,425 |
| | 20.12.2004 | 0.250 | 4,874,261 | — | 4,874,261 |
| Other employees | 28.9.2004 | 0.242 | 2,293,767 | (327,681) | 1,966,086 |
| | 20.12.2004 | 0.250 | 1,949,703 | (278,529) | 1,671,174 |
| | | | 14,852,156 | (606,210) | 14,245,946 |

The options granted on 28 September 2004 and 20 December 2004 are vested for a period of three years immediately after the date of grant by one-third on each anniversary and are fully vested on 27 September 2007 and 19 December 2007 respectively. Options granted on those dates are exercisable after one year but not exceeding ten years from the date of grant subject to vesting conditions stated above.

## 31. ACQUISITION OF SUBSIDIARIES

### Acquisition

On 28 July 2006, the Company has entered into a stock purchase agreement with Jacuzzi Brands, Inc., a company incorporated in the State of Delaware, USA and listed on the New York Stock Exchange and acquired approximately 61.8% of the issued share capital of S&J, a company incorporated in the State of Nevada, USA and traded electronically on the Over-the-counter bulletin board of the National Association of Securities Dealers of America for a consideration of HK$38.75 million.

## 31. ACQUISITION OF SUBSIDIARIES *(Continued)*

Acquisition *(Continued)*

The net assets acquired in the transaction and the discount on acquisition arising are as follows:

| | Acquiree's carrying amount before combination HK$ | Fair value adjustments HK$ | Fair value HK$ |
|---|---|---|---|
| Net assets acquired: | | | |
| Property, plant and equipment *(Note)* | 120,393,883 | 69,229,383 | 189,623,266 |
| Available-for-sale investments | 855,399 | — | 855,399 |
| Interest in an associate | 2,856,165 | — | 2,856,165 |
| Deferred tax asset | 114,609,062 | — | 114,609,062 |
| Inventories | 174,081,088 | — | 174,081,088 |
| Debtors and prepayments | 136,139,037 | — | 136,139,037 |
| Taxation recoverable | 1,551,318 | — | 1,551,318 |
| Bank and cash balances | 255,576,032 | — | 255,576,032 |
| Creditors and accrued charges | (122,119,181) | — | (122,119,181) |
| Taxation payable | (1,319,345) | — | (1,319,345) |
| Obligations under finance leases | (6,495,238) | — | (6,495,238) |
| Bank overdrafts | (167,034,914) | — | (167,034,914) |
| Provisions | (35,056,889) | — | (35,056,889) |
| Deferred tax liability | — | (20,776,064) | (20,776,064) |
| Retirement benefit obligation | (396,760,478) | — | (396,760,478) |
| | 77,275,939 | 48,453,319 | 125,729,258 |
| Minority interests | | | (48,028,577) |
| Discount on acquisition | | | (26,200,681) |
| Legal and professional fees paid directly attributable to the acquisition | | | (12,750,000) |
| Total consideration, satisfied by cash | | | 38,750,000 |
| Net cash outflow arising on acquisition: | | | |
| Cash consideration paid | | | (38,750,000) |
| Legal and professional fees paid directly attributable to the acquisition | | | (12,750,000) |
| Cash and cash equivalents acquired | | | 255,576,032 |
| Bank overdraft acquired | | | (167,034,914) |
| | | | 37,041,118 |

## 31. ACQUISITION OF SUBSIDIARIES *(Continued)*

### Acquisition *(Continued)*

*Note:* The fair value of property, plant and equipment of the subsidiaries has been arrived at based on a valuation carried out by independent valuers not connected with the Group. The valuation was determined by reference to recent market prices of similar properties.

The discount on acquisition mainly arose from the fair value adjustment regarding the freehold land and buildings acquired. The directors of the Company also have positive views on the future business prospects of S&J.

S&J contributed HK$116.3 million to the Group's turnover and HK$1.5 million to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 April 2006, total group revenue for the period would have been HK$651.2 million, and profit for the period would have been HK$24.1 million. The pro forma information is for illustrative purposes only and is not necessarily an indicative of the revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 April 2006, nor is it intended to be a projection of future results.

## 32. MAJOR NON-CASH TRANSACTIONS

During the period, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately HK$1,371,750 (1.4.2005 to 31.3.2006: HK$4,856,581).

## 33. PLEDGE OF ASSETS

At the balance sheet date, the Group pledged its bank deposits of HK$5,000,000 to banks to secure credit facilities granted by the banks to the extent of approximately HK$27,500,000 (31.3.2006: HK$27,500,000).

The Group has pledged land and buildings having a net book value of approximately HK$122,366,000 (31.3.2006: nil) to secure general banking facilities granted to the Group.

## 34. CONTINGENT LIABILITIES

On 15 April 2004, the U.S. Securities and Exchange Commission ("SEC") filed suit in the U.S. District Court for the Southern District of Florida, against S&J and Mr. Dennis Crowley, its then Chief Executive Officer / Chairman ("Crowley"), among others, alleging violations of the federal securities laws. On 15 February 2005, the court approved a negotiated settlement with the SEC, without any admission of liability by the parties. S&J consented to a permanent injunction from violation of various provisions under federal securities laws.

In connection with the SEC complaint, the court appointed a Corporate Monitor on 15 April 2004 to oversee S&J's operations, with power to review and approve all corporate actions. The fees and disbursements of the Corporate Monitor are borne by S&J. The term of office of the Corporate Monitor will cease when the court determines the function of the Corporate Monitor is no longer necessary, or S&J and the Corporate Monitor so agree. On 9 January 2007, the Corporate Monitor applied to end his term of office as he did not consider it necessary to continue his oversight function any longer. S&J awaits the court's ruling on this application.

Subsequent to the SEC action a number of class action lawsuits were initiated against Crowley, S&J and others ("the Class Action"), alleging essentially the same claims as in the SEC's suit. Following settlement negotiations, a Stipulation of Settlement has now been filed in the Class Action, with a final approval hearing by the court tentatively scheduled on 16 April 2007.

A derivative action, which contained essentially the same allegations as the SEC suit, was also brought by shareholders against certain directors and officers of S&J and other defendants, naming S&J as a nominal defendant ("Derivative Action"). A Stipulation of Settlement has also been filed in the Derivative Action, with a preliminary approval hearing by the court scheduled on 2 February 2007.

If the Class Action and Derivative Action are not settled, the plaintiffs might pursue the litigation. The outcome of such litigation cannot be predicted at this time.

Additionally, the Company is, from time to time, subject to legal proceedings and claims arising from the conduct of its business operations, including litigation related to personal injury claims, customer contract matters, employment claims and environmental matters.

While it is impossible to ascertain the ultimate legal and financial liability with respect to contingent liabilities including lawsuits, the directors of the Company believe that with the aggregate amount of such liabilities, if any, in excess of amounts accrued or covered by insurance, will not have a material adverse effect on the consolidated financial position or results of operations of the Group.

## 35. OPERATING LEASE COMMITMENTS

**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| Operating leases which expire: | | |
| Within one year | 13,344,023 | 4,728,696 |
| In the second to fifth years inclusive | 39,058,685 | 12,717,824 |
| Over five years | 10,575,750 | — |
| | 62,978,458 | 17,446,520 |

Operating lease payments represent rentals payable by the Group for its office properties and factories which are negotiated for an average terms of seven years.

In respect of non-cancellable operating leases commitments, the following liabilities have been recognised:

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| Onerous lease contracts *(Note 25)* | | |
| Within one year | 3,097,500 | — |
| In the second to fifth years inclusive | 15,635,000 | — |
| Over five years | 236,000 | — |
| Total | 18,968,500 | — |

## 35. OPERATING LEASE COMMITMENTS *(Continued)*

**The Group as lessor**

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

| | 30.9.2006<br>HK$ | 31.3.2006<br>HK$ |
|---|---|---|
| Within one year | 1,180,000 | — |
| In the second to fifth years inclusive | 2,197,750 | — |
| Over five years | 4,248,000 | — |
| | 7,625,750 | — |

Operating lease income represents the rental receivable by the Group for its leased properties under sub-lease agreements. The Group had contracted with tenants for the above future minimum lease payments.

## 36. PRINCIPAL SUBSIDIARIES

| Name of company | Place of incorporation or registration | Issued and fully paid share capital/ registered capital | Proportion of ownership interest held by the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Bowers Eclipse Equipment Shanghai Co. Limited | PRC | Ordinary RMB4,026,000 | — | 61.8% | Manufacture, quality control and distribution of metrology products |
| Bowers Group plc | UK | Ordinary £50,000<br>Ordinary "A" £10,000 | — | 61.8% | Investment holding |
| Bowers Metrology Limited | UK | Ordinary £100 | — | 61.8% | Manufacturer and distributor of precision measuring equipment |
| Coventry Gauge Limited | UK | Ordinary £2 | — | 61.8% | Manufacture of precision gauges and associated metrology products |
| CV Instruments Europe BV | The Netherlands | Ordinary Euro18,000 | — | 61.8% | Distributor of precision measuring equipment |

## 36. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation or registration | Issued and fully paid share capital/ registered capital | Proportion of ownership interest held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| CV Instruments Limited | UK | Ordinary £100 | — | 61.8% | Assembly and distributor of precision measuring equipment |
| Eclipse Magnetics Limited | UK | Ordinary £80,000 | — | 61.8% | Manufacture of permanent magnets, magnetic work holding systems and other associated products, marketing and sales of micrometers and other precision measuring tools |
| James Neill Holdings Limited | UK | Ordinary £44,773,788 4.2% Preference £300,000 | — | 61.8% | Investment holding |
| Magnacut Limited | UK | Ordinary £9,000 | — | 61.8% | Manufacture of permanent magnets and assemblies |
| Markbalance, plc | UK | Ordinary £13,000 | — | 61.8% | Investment holding |
| Neill France SA | France | Ordinary Euro198,184 | — | 61.8% | Investment holding |
| Neill Tools Limited | UK | Ordinary £25,597,000 | — | 61.8% | Manufacture of hacksaw blades, other engineers cutting tools, micrometers and other precision measuring tools |
| Offertower plc | UK | Ordinary £13,000 | — | 61.8% | Investment holding |
| Pan Electrium Industrial Company Limited | Hong Kong | Ordinary HK$5,000,000 | — | 100% | Manufacture of and trading in electronic/electrical parts and products |

## 36. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation or registration | Issued and fully paid share capital/ registered capital | Proportion of ownership interest held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Pantene Global Holdings Limited *(Note)* | Hong Kong | Ordinary HK$5,000,000 | 100% | 100% | Investment holding in Hong Kong |
| Pantene Industrial Co. Limited | Hong Kong | Ordinary HK$10,000 | — | 100% | Trading in electronics products |
| Pantronics Holdings Limited *(Note)* | British Virgin Islands | Ordinary US$200 | 100% | 100% | Investment holding |
| Pin Xin International Limited | Hong Kong | Ordinary HK$10,000 | — | 100% | Trading in rechargeable battery products |
| Rise Up International Limited *(Note)* | British Virgin Islands | Ordinary US$1 | 100% | 100% | Investment holding in Hong Kong |
| Spear & Jackson (Australia) Pty Limited | Australia | Ordinary AUS$4,640,000 | — | 61.8% | Marketing and sale of group hand and garden tools and other related products |
| Spear & Jackson France SA | France | Ordinary Euro1,300,000 | — | 61.8% | Marketing and sale of group tools and other related products |
| Spear & Jackson Garden Products Limited | UK | Ordinary £16,977,000 | — | 61.8% | Manufacturing and sale of garden, agricultural and contractors' hand tools, woodsaws and builders' tools |
| Spear & Jackson Holdings Limited | UK | Cumulative Preference £80,000<br>Ordinary £16,470,391 | — | 61.8% | Investment holding |
| Spear & Jackson, Inc. | United States | Ordinary US$12,000 | — | 61.8% | Investment holding |

## 36. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of company | Place of incorporation or registration | Issued and fully paid share capital/ registered capital | Proportion of ownership interest held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|---|
| Spear & Jackson plc | UK | Ordinary £60,834,229 Deferred £22,599,309 | — | 61.8% | Investment holding |
| Spear & Jackson (New Zealand) Limited | New Zealand | Ordinary NZ$400,000 | — | 61.8% | Marketing and sale of group hand and garden tools and other related products |
| 上海品新電源有限公司 Shanghai Pin Xin | PRC * | Registered HK$28,000,000 | — | 100% | Trading of rechargeable battery products |
| 深圳品泰電子有限公司 Shenzhen Pantai Electronic Co., Limited | PRC * | Registered US$700,000 | — | 100% | Manufacture of electronic products |

* *This subsidiary was established in the PRC as a wholly foreign-owned enterprise.*

*Note:* Directly held by the Company.

Unless specified in the "Principal activities", the above subsidiaries operate principally in their respective places of incorporation or registration.

The above list includes the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the period or formed a substantial portion of the assets and liabilities of the Group. To give details of all the other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at 30 September 2006 or at any time during the period.

## 37. RELATED PARTY TRANSACTIONS

On 28 July 2006, the Company has entered into a stock purchase agreement with Jacuzzi, a company incorporated in the State of Delaware, USA and listed on the New York Stock Exchange and acquired approximately 61.8% of the issued share capital of S&J, a company incorporated in the State of Nevada, USA and traded electronically on the Over-the-counter bulletin board of the National Association of Securities Dealers of America for a total consideration of HK$38.75 million. Mr. Brian C Beazer and Mr. David H Clarke, were the directors and shareholders of the Company and Jacuzzi. Details of the acquisition is referred to note 31.

Other than the above mentioned transaction and the emoluments paid to the directors of the Company as disclosed in note 10, who are also considered as the key management of the Group, the Group has not entered into any other related party transaction.