1. Corporate Information

Sun East Technology (Holdings) Limited is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Unit H, 1st Floor, Phase 4, Kwun Tong Industrial Centre, Nos. 436-446 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong.

During the year, the Group was involved in the following principal activities:

- design, manufacture and distribution of production lines and production equipment
- distribution of brand name production equipment

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, and certain leasehold land and buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 32, 33, 36, 37, 38, 39, HK-Int 4 and HKFRSs 3 and 5 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

In prior periods, the Group's share of tax attributable to associate was presented as a component of the Group's total tax charge in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition result of associate is presented net of the Group's share of tax attributable to associate.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior years, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payment, while buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The effects of the above changes are summarised in note 2.4 to the financial statements. The change has been adopted retrospectively from the earliest period presented and comparative amounts have been restated.

(b) HKAS 40 – Investment Property

In prior years, changes in the fair values of investment properties were dealt with as movements in the asset revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

This change in accounting policy has had no effect on the consolidated income statement, consolidated retained profits and the consolidated balance sheet.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

(c) HKFRS 2 – Share-based Payment

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 April 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 March 2005 but had not yet vested as at 1 April 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 March 2004 and as at 31 March 2005. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

(d) HK(SIC)-Int 21 – Income Taxes – Recovery of Revalued Non-depreciable Assets

In prior periods, deferred tax arising on the revaluation of investment properties was recognised based on the tax rate that would be applicable upon the sale of the investment properties.

Upon the adoption of HK(SIC)-Int 21, deferred tax arising on the revaluation of the Group's investment properties is determined depending on whether the properties will be recovered through use or through sale. The Group has determined that its investment properties will be recovered through use, and accordingly the profits tax rate has been applied to the calculation of deferred tax.

This change in accounting policy has had no effect on the consolidated income statement, consolidated retained profits and the consolidated balance sheet.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards

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

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK (IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK (IFRIC)-Int 8	Scope of HKFRS 2
HK (IFRIC)-Int 9	Reassessment of Embedded Derivatives

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

2.3 Impact of Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKAS 21 Amendment, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6, HK(IFRIC)-Int 7, HK(IFRIC)-Int 8 and HK(IFRIC)-Int 9 do not apply to the activities of the Group. HK(IFRIC)-Int 6 shall be applied for annual periods beginning on or after 1 December 2005. HKAS 21 Amendment, HK(IFRIC)-Int 7, HK(IFRIC)-Int 8 and HK(IFRIC)-Int 9 shall be applied for annual periods beginning on or after 1 January 2006, 1 March 2006, 1 May 2006 and 1 June 2006, respectively.

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 Summary of the Impact of Changes in Accounting Policies

(a) Effect on the consolidated balance sheet

	Effect of adopting
At 1 April 2005	**HKAS 17#**
Effect of new policy	**Prepaid land**
(Increase/(decrease))	**lease payment**
	HK$'000
Assets	
Property, plant and equipment	(10,873)
Prepaid land lease payment	6,715
Prepayments, deposits and other receivables	158
	(4,000)
Liabilities/equity	
Asset revaluation reserve	(4,000)

Adjustments/presentation taken effect retrospectively

2.4 Summary of the Impact of Changes in Accounting Policies (continued)

(a) Effect on the consolidated balance sheet (continued)

At 31 March 2006	Effect of adopting		
	HKAS 17	HKFRS 2	
Effect of new policies (Increase/(decrease))	Prepaid land lease payment	Equity-settled share option arrangements	Total
	HK$'000	HK$'000	HK$'000
Assets			
Property, plant and equipment	(10,912)	–	(10,912)
Prepaid land lease payment	6,752	–	6,752
Prepayments, deposits and other receivables	160	–	160
			(4,000)
Liabilities/equity			
Share option reserve	–	4,992	4,992
Asset revaluation reserve	(4,000)	–	(4,000)
Retained profits	–	(4,992)	(4,992)
			(4,000)

2.4 Summary of the Impact of Changes in Accounting Policies (continued)

(b) Effect on the balances of equity at 1 April 2004 and at 1 April 2005

Effect of new policy (Increase/(decrease))	**Effect of adopting HKAS 17 Prepaid land lease payment** HK$'000
1 April 2004	
Asset revaluation reserve	(4,000)
1 April 2005	
Asset revaluation reserve	(4,000)

(c) Effect on the consolidated income statement for the year ended 31 March 2006

Effect of new policy (Increase/(decrease))	**Effect of adopting HKFRS 2 Employee share option scheme HK$'000**
Year ended 31 March 2006	
Increase in administrative expenses	**4,992**
Total decrease in profit	**(4,992)**
Decrease in basic earnings per share	**HK0.01 cent**
Decrease in diluted earnings per share	**N/A**

2.5 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

2.5 Summary of Significant Accounting Policies (continued)

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of its jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of its associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in the associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

2.5 Summary of Significant Accounting Policies (continued)

Impairment of assets (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

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

2.5 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. Except for the leasehold land and buildings which are depreciated on the straight-line basis, all items of property, plant and equipment are depreciated on the reducing balance basis. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2% to 4.5%
Machinery and equipment	9% to 25%
Furniture, fixtures and leasehold improvements	18% to 25%
Motor vehicles	25%

2.5 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Investment property

Investment property is an interest in land and a building held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, the investment property is stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair value of the Group's investment property are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of the investment property are recognised in the income statement in the year of the retirement or disposal.

2.5 Summary of Significant Accounting Policies (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payment under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Intangible asset (other than goodwill)

The useful life of intangible asset is assessed to be either finite or indefinite. Intangible asset with finite life is amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

2.5 Summary of Significant Accounting Policies (continued)

Intangible assets (other than goodwill) (continued)

Technical know-how

Acquisition of the rights to technical know-how for the manufacture of new products is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of not exceeding five years, commencing from the date when the new products are available for use.

Investments and other financial assets

Applicable to the year ended 31 March 2006:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.5 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (applicable to the year ended 31 March 2006)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.5 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (applicable to the year ended 31 March 2006) (continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets (applicable to the year ended 31 March 2006)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.5 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets (applicable to the year ended 31 March 2006) (continued)

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities (applicable to the year ended 31 March 2006)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.5 Summary of Significant Accounting Policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Revenue from cost plus construction contracts is recognised on the percentage of completion method, by reference to the recoverable costs incurred during the period plus the related fee earned, measured by the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

2.5 Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

- in respect of taxable temporary differences associated with investments in subsidiaries, associate and interest in joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

2.5 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” above;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders’ right to receive payment has been established.

2.5 Summary of Significant Accounting Policies (continued)

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 30. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

2.5 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested on 1 April 2005 and to those granted on or after 1 April 2005.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

2.5 Summary of Significant Accounting Policies (continued)

Employee benefits (continued)

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those 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 the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, 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. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2.5 Summary of Significant Accounting Policies (continued)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.6 Significant Accounting Judgements and Estimates

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Inventories

The Group does not have a general provisioning policy on inventories based on ageing given that the inventories are not subject to frequent wear and tear or frequent technological changes. However, as a significant proportion of the working capital is devoted to inventories, operational procedures have been in place to monitor this risk. The Group reviews the inventory ageing listing on a periodical basis for those aged inventories. This involves comparison of the carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the consolidated financial statements for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out on a periodical basis in order to determine whether the allowance needs to be made in respect of any obsolete and defective inventories identified.

Accounts receivable

In judging whether allowances for estimated irrecoverable amounts of the accounts receivable have to be recognised in the consolidated financial statements, the Group takes into consideration if there is objective evidence that the Group will not be able to collect the debts. Following the identification of doubtful debts, the Group's responsible personnel discuss with the relevant customers and report to management on the recoverability. Specific allowance is only made for receivables that are unlikely to be collected.

Estimated useful lives of property, plant and equipment and other intangible assets

In assessing the estimated useful lives of the property, plant and equipment and other intangible assets, the Group takes into account factors like the expected usage of the assets by the Group based on past experience, the expected physical wear and tear, and technical obsolescence arising from changes or improvements in production or from a change in the market demand for the products. The estimation of the useful lives is a matter of judgement based on the experience of the Group.

2.6 Significant Accounting Judgements and Estimates (continued)

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 discussed below.

Impairment of property, plant and equipment and other intangible asset

Property, plant and equipment and other intangible asset are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the property, plant and equipment and other intangible asset have been determined based on value-in-use calculations. These calculations and valuations require the use of judgements and estimates. The carrying amounts of property, plant and equipment and intangible asset at 31 March 2006 were HK$139,895,000 (2005: HK$147,524,000) and HK$5,967,000 (2005: HK$11,467,000), respectively. More details are given in notes 13 and 16.

Current income taxes and deferred income taxes

The Group is subject to income taxes in Hong Kong and Mainland China. Significant judgement is required in determining the amount of the provision for tax and the timing of payment of the related taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the income tax and deferred tax provisions in the periods in which such determination is made. The total amount of income tax credit and deferred income taxes charged included in the consolidated income statement was HK$1,004,000 (2005: total income tax charged and deferred income taxes credited was HK$1,958,000). More details are given in note 9.

2.6 Significant Accounting Judgements and Estimates (continued)

Estimation uncertainty (continued)

Valuation of buildings situated in Mainland China, and land and buildings situated in Hong Kong

The Group's buildings situated in Mainland China and land and buildings situated in Hong Kong included in the property, plant and equipment are stated at their fair values in the balance sheet, which are assessed annually by management with reference to valuations performed by independent professionally qualified valuers using the existing use method and the depreciated replacement cost method. The assumptions adopted in the valuations are based on the market conditions existing at the balance sheet date, with reference to the current market values of similar properties in the same location and conditions and for the same usage as the Group. The carrying amount of buildings situated in Mainland China and leasehold land and buildings situated in Hong Kong at 31 March 2006 were HK$93,740,000 (2005: HK$95,027,000). More details are given in note 13.

3. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the production lines and production equipment segment consists of the design, manufacture and sale of production lines and production equipment; and

(b) the brand name production equipment segment consists of the trading and distribution of brand name production equipment;

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

3. Segment Information (continued)

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2006 and 2005.

Group

	Production lines and production equipment		**Brand name production equipment**		**Consolidated**	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)				(Restated)
Segment revenue:						
Sales to external customers	**293,879**	326,865	**164,417**	195,063	**458,296**	521,928
Other revenue – external	**2,577**	2,017	**–**	–	**2,577**	2,017
Total	**296,456**	328,882	**164,417**	195,063	**460,873**	523,945
Segment results	**(57,586)**	8,125	**19,586**	28,089	**(38,000)**	36,214
Interest and unallocated income					**819**	756
Finance costs					**(1,975)**	(2,591)
Share of profits and losses of:						
A jointly-controlled entity	**952**	(255)	**–**	–	**952**	(255)
An associate	**20**	75	**–**	–	**20**	75
Profit/(loss) before tax					**(38,184)**	34,199
Tax					**1,004**	(1,958)
Profit/(loss) for the year attributable to equity holders					**(37,180)**	32,241

3. Segment Information (continued)

(a) Business segments (continued)

Group

	Production lines and production equipment		Brand name production equipment		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)				(Restated)
Segment assets	**353,097**	432,048	**86,976**	56,391	**440,073**	488,439
Interest in a jointly-controlled entity	**5,570**	4,618	**–**	–	**5,570**	4,618
Interest in an associate	**1,010**	990	**–**	–	**1,010**	990
Unallocated assets					**3,500**	5,750
Total assets					**450,153**	499,797
Segment liabilities	**75,259**	113,174	**50,623**	12,590	**125,882**	125,764
Unallocated liabilities					**54,269**	65,684
Total liabilities					**180,151**	191,448
Other segment information:						
Depreciation and amortisation, including recognition of prepaid land lease payment	**20,820**	21,154	**–**	–	**20,820**	21,154
Capital expenditure	**6,970**	11,768	**–**	–	**6,970**	11,768
Changes in fair value of leasehold land and buildings	**(12)**	(41)	**–**	–	**(12)**	(41)
Changes in fair value of an investment property	**(80)**	(720)	**–**	–	**(80)**	(720)
Provision for doubtful debts	**7,458**	2,630	**–**	–	**7,458**	2,630
Provision for obsolete inventories	**3,838**	–	**–**	–	**3,838**	–
Loss on disposal of items of property, plant and equipment	**2,477**	30	**–**	–	**2,477**	30
Foreseeable losses of construction contracts	**–**	4,466	**–**	–	**–**	4,466

3. Segment Information (continued)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	Hong Kong		Mainland China		European Union		Others		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
				(Restated)						(Restated)
Segment revenue:										
Sales to external customers	**78,190**	91,742	**341,409**	414,588	**12,195**	10,045	**26,502**	5,553	**458,296**	521,928
Other segment information:										
Segment assets	**193,631**	257,473	**248,921**	242,324	**3,092**	–	**4,509**	–	**450,153**	499,797
Capital expenditure	**2,868**	–	**4,102**	11,768	**–**	–	**–**	–	**6,970**	11,768

4. Revenue, Other Income and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the net invoiced value of the services provided; and an appropriate proportion of contract revenue of construction contracts.

An analysis of revenue, other income and gains is as follows:

	2006	2005
	HK$'000	HK$'000
Revenue		
Sale of goods	**458,296**	508,046
Construction contracts	**–**	13,882
	458,296	521,928
Other income		
Bank interest income	**819**	329
Gross and net rental income	**83**	83
Service income	**843**	980
Others	**1,651**	954
	3,396	2,346
Gains		
Exchange gains, net	**–**	427
	3,396	2,773

5. Finance Costs

	Group	
	2006	2005
	HK$'000	HK$'000
Interest on bank loans		
wholly repayable within five years	**1,836**	2,363
Interest on finance leases	**139**	228
	1,975	2,591

6. Profit/(Loss) Before Tax

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	**2006** **HK$'000**	2005 HK$'000
Cost of inventories sold		**373,373**	399,645
Auditors' remuneration		**1,500**	825
Depreciation	13	**15,162**	15,499
Minimum lease payments under operating leases in respect of land and buildings		**1,576**	2,245
Employee benefits expense (excluding directors' remuneration – note 7):			
Wages and salaries		**51,510**	45,775
Equity-settled share option expense		**4,992**	–
Pension scheme contributions		**429**	882
		56,931	46,657
Amortisation of technical know-how*	16	**5,500**	5,499
Amortisation of prepaid land lease payment	15	**158**	156
Changes in fair value of an investment property	14	**(80)**	(720)
Changes in fair value of leasehold land and buildings	13	**(12)**	(41)
Provision for doubtful debts		**7,458**	2,630
Provision for obsolete inventories*		**3,838**	–
Foreseeable losses on construction contracts*		**–**	4,466
Loss on disposal of items of property, plant and equipment		**2,477**	30
Foreign exchange differences, net		**76**	(427)

* Included in "Cost of sales" on the face of the consolidated income statement.

7. Directors' Remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Fees:		
Independent non-executive directors	**418**	427
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	**3,846**	3,513
Employee share option benefits	**4,992**	–
Pension scheme contributions	**48**	48
	9,304	3,988

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

7. Directors' Remuneration (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006 HK$'000	2005 HK$'000
Mr. See Tak Wah	**120**	67
Prof. Xu Yang Sheng	**104**	–
Mr. Yau Wing Keung, Frankie	**104**	–
Mr. Au Son Yiu	**45**	180
Mr. Goh Gen Cheung	**45**	180
	418	427

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2006					
Mr. But Tin Fu	–	931	1,248	12	2,191
Mr. But Tin Hing	–	1,065	1,248	12	2,325
Mr. Leung Cheong	–	931	1,248	12	2,191
Mr. Leung Kuen, Ivan	–	919	1,248	12	2,179
	–	3,846	4,992	48	8,886

7. Directors' Remuneration (continued)

(b) Executive directors (continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share option benefits HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2005					
Mr. But Tin Fu	–	859	–	12	871
Mr. But Tin Hing	–	992	–	12	1,004
Mr. Leung Cheong	–	810	–	12	822
Mr. Leung Kuen, Ivan	–	852	–	12	864
	–	3,513	–	48	3,561

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. Five Highest Paid Employees

The five highest paid employees during the year included four (2005: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2005: one) non-director, highest paid employee for the year are as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Salary, allowances and benefits in kind	**650**	540
Pension scheme contributions	**48**	12
	698	552

The remuneration of the non-director, highest paid employee for the year fell within the nil – HK$1,000,000 band.

9. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rate of taxes prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006	2005
	HK$'000	HK$'000
		(Restated)
Group:		
Current – Hong Kong		
Charge for the year	**3,349**	10,869
Current – Elsewhere		
Charge for the year	**–**	727
Overprovision in prior years	**(5,034)**	(7,826)
Deferred – (note 28)	**681**	(1,812)
	(1,004)	1,958

9. Tax (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the regions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

Group – 2006

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(8,035)		(30,149)		(38,184)	
Tax at the statutory tax rate	(1,406)	(17.5)	(9,949)	(33.0)	(11,355)	(29.7)
Lower tax rate for specific provinces or local authorities	–	–	5,661	18.8	5,661	14.8
Adjustments in respect of current tax of previous periods	–	–	(5,034)	(16.7)	(5,034)	(13.2)
Income not subject to tax	(1,305)	(16.3)	–	–	(1,305)	(3.4)
Expenses not deductible for tax	3,180	39.6	4,442	14.7	7,622	20.0
Tax losses not recognised	3,107	38.7	175	0.6	3,282	8.6
Others	454	5.7	(329)	(1.1)	125	0.3
Tax charge/(credit) at the Group's effective rate	4,030	50.2	(5,034)	(16.7)	(1,004)	(2.6)

9. Tax (continued)

Group – 2005

	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
	(Restated)				(Restated)	
Profit/(loss) before tax	44,624		(10,425)		34,199	
Tax at the statutory tax rate	7,809	17.5	(3,440)	(33.0)	4,369	12.8
Lower tax rate for specific provinces or local authorities	–	–	(941)	(9.0)	(941)	(2.8)
Adjustments in respect of current tax of previous periods	–	–	(7,826)	(75.1)	(7,826)	(22.9)
Income not subject to tax	(135)	(0.3)	–	–	(135)	(0.4)
Expenses not deductible for tax	878	2.0	290	2.8	1,168	3.4
Tax losses utilised from previous periods	(215)	(0.5)	–	–	(215)	(0.6)
Tax losses not recognised	–	–	4,370	41.9	4,370	12.8
Other temporary differences	430	1.0	–	–	430	1.3
Others	286	0.6	452	4.3	738	2.1
Tax charge/(credit) at the Group's effective rate	9,053	20.3	(7,095)	(68.1)	1,958	5.7

10. Profit from Ordinary Activities Attributable to Equity Holders

The profit from ordinary activities attributable to equity holders for the year ended 31 March 2006 dealt with in the financial statements of the Company, was HK$18,000 (2005: HK$8,957,000) (note 31(b)).

11. Dividend

	2006	2005
	HK$'000	HK$'000
Proposed final – Nil (2005: HK2.5 cents) per ordinary share	**–**	9,375

12. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders

The calculation of the basic loss per share amount is based on the loss for the year of HK$37,180,000 (2005: profit of HK$32,241,000) attributable to ordinary equity holders, and the 375,000,000 (2005: weighted average number of 358,767,123) ordinary shares in issue during the year.

There has been no dilutive effect on the basic loss per share for the year ended 31 March 2006 as the exercise prices of the outstanding share options were higher than the average market price of the Company's shares during the year.

No diluted earnings per share for the year ended 31 March 2005 has been calculated as no diluting events existed during that year.

13. Property, Plant and Equipment

Group

	Leasehold land and buildings HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
31 March 2006					
At 31 March 2005 and at 1 April 2005:					
Cost or valuation	95,027	73,302	21,368	8,998	198,695
Accumulated depreciation	–	(36,942)	(10,052)	(4,177)	(51,171)
Net carrying amount	95,027	36,360	11,316	4,821	147,524
At 1 April 2005, net of accumulated depreciation	95,027	36,360	11,316	4,821	147,524
Additions	–	2,209	4,689	72	6,970
Disposals	–	(2,542)	(1,550)	(258)	(4,350)
Surplus on revaluation	1,587	–	–	–	1,587
Depreciation provided during the year	(5,374)	(5,516)	(3,634)	(638)	(15,162)
Exchange realignment	2,500	389	329	108	3,326
At 31 March 2006, net of accumulated depreciation	93,740	30,900	11,150	4,105	139,895
At 31 March 2006:					
Cost or valuation	93,740	72,596	23,649	8,796	198,781
Accumulated depreciation	–	(41,696)	(12,499)	(4,691)	(58,886)
Net carrying amount	93,740	30,900	11,150	4,105	139,895
Analysis of cost or valuation:					
At cost	–	72,596	23,649	8,796	105,041
At valuation	93,740	–	–	–	93,740
	93,740	72,596	23,649	8,796	198,781

13. Property, Plant and Equipment (continued)

Group

	Leasehold land and buildings HK$'000 (Restated)	Machinery and equipment HK$'000	Furniture, fixtures and leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000 (Restated)
31 March 2005					
At 31 March 2004 and at 1 April 2004:					
Cost or valuation	96,151	66,275	19,253	7,945	189,624
Accumulated depreciation	–	(30,263)	(7,698)	(3,637)	(41,598)
Net carrying amount	96,151	36,012	11,555	4,308	148,026
At 1 April 2004, net of accumulated depreciation	96,151	36,012	11,555	4,308	148,026
Additions	301	7,462	2,574	1,431	11,768
Disposals	(301)	(210)	(152)	(208)	(871)
Depreciation provided during the year	(5,286)	(6,864)	(2,648)	(701)	(15,499)
Written back on revaluation	4,162	–	–	–	4,162
Exchange realignment	–	(40)	(13)	(9)	(62)
At 31 March 2005, net of accumulated depreciation	95,027	36,360	11,316	4,821	147,524
At 31 March 2005:					
Cost or valuation	95,027	73,302	21,368	8,998	198,695
Accumulated depreciation	–	(36,942)	(10,052)	(4,177)	(51,171)
Net carrying amount	95,027	36,360	11,316	4,821	147,524
Analysis of cost or valuation:					
At cost	–	73,302	21,368	8,998	103,668
At valuation	95,027	–	–	–	95,027
	95,027	73,302	21,368	8,998	198,695

13. Property, Plant and Equipment (continued)

Company

	Machinery and equipment HK$'000
31 March 2006	
At 1 April 2005, net of accumulated depreciation	**112**
Additions	**20**
Depreciation provided during the year	**(32)**
At 31 March 2006, net of accumulated depreciation	**100**
At 31 March 2006:	
Cost	**160**
Accumulated depreciation	**(60)**
Net carrying amount	**100**
31 March 2005	
At 1 April 2004:	
Cost	–
Accumulated depreciation	–
Net carrying amount	–
At 1 April 2004, net of accumulated depreciation	–
Additions	140
Depreciation provided during the year	(28)
At 31 March 2005, net of accumulated depreciation	112
At 31 March 2005 and 1 April 2005:	
Cost	140
Accumulated depreciation	(28)
Net carrying amount	112

13. Property, Plant and Equipment (continued)

The Group's buildings situated in Hong Kong and Mainland China were revalued individually at the balance sheet date by Castores Magi Surveyors Limited ("Castores"), independent professionally qualified valuers, at open market value of HK$4,120,000 (2005: HK$3,800,000) and HK$89,620,000 (2005: HK$91,227,000 (restated)), respectively, based on their existing use and the depreciated replacement cost, respectively. Revaluation surpluses of HK$1,575,000 (2005: HK$4,121,000) and HK$12,000 (2005: HK$41,000), resulting from the above valuations, have been credited to the relevant asset revaluation reserve and to the consolidated income statement, respectively.

Had these leasehold land and buildings been stated at cost less accumulated depreciation, their carrying amounts would have been HK$88,794,000 (2005: HK$89,009,000 (restated)).

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles and machinery and equipment at 31 March 2006 are as follows:

	2006	2005
	HK$'000	HK$'000
Motor vehicles	**230**	288
Machinery and equipment	**3,839**	4,773

The Group's leasehold land and buildings are held under medium term leases and are further analysed as follows:

	2006	2005
	HK$'000	HK$'000
		(Restated)
Hong Kong	**4,120**	3,800
Elsewhere	**89,620**	91,227
	93,740	95,027

At 31 March 2006, certain of the Group's leasehold land and buildings and a motor vehicle with net book values of approximately HK$1,960,000 (2005: HK$1,790,000) and HK$230,000 (2005: HK$312,000), respectively, were pledged to secure general banking facilities granted to the Group (note 25).

14. Investment Property

	2006	2005
	HK$'000	HK$'000
Carrying amount at 1 April	**1,940**	1,220
Net profit from a fair value adjustment	**80**	720
Carrying amount at 31 March	**2,020**	1,940

The Group's investment property is situated in Hong Kong and is held under a medium term lease.

The Group's investment property was revalued as at 31 March 2006 by Castores, independent professionally qualified valuers, at HK$2,020,000 (2005: HK$1,940,000) on the open market, existing use basis. The investment property is leased to third parties under operating lease, further summary details of which are included in note 34 to the financial statements. A surplus of HK$80,000 (2005: HK$720,000) so arising has been credited to the consolidated income statement.

At 31 March 2006, the Group's investment property with a value of HK$2,020,000 (2005: HK$1,940,000) was pledged to secure general banking facilities granted to the Group (note 25).

15. Prepaid Land Lease Payment

	Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Carrying amount at 1 April		
As previously reported	**–**	–
Effect of adopting HKAS 17 (note 2.2(a))	**6,873**	7,029
As restated	**6,873**	7,029
Recognised during the year	**(158)**	(156)
Exchange realignment	**197**	–
Carrying amount at 31 March	**6,912**	6,873
Current portion included in prepayments, deposits and other receivables	**(160)**	(158)
Non-current portion	**6,752**	6,715

The leasehold land held under medium term leases amounted to HK$6,912,000 (2005: HK$6,873,000) and is situated in Mainland China.

16. Intangible Asset

Group	**Technical know-how HK$'000**
31 March 2006	
Cost at 1 April 2005, net of accumulated amortisation	**11,467**
Amortisation provided during the year	**(5,500)**
At 31 March 2006	**5,967**
At 31 March 2006:	
Cost	**27,498**
Accumulated amortisation	**(21,531)**
Net carrying amount	**5,967**
31 March 2005	
At 1 April 2004:	
Cost	27,498
Accumulated amortisation	(10,532)
Net carrying amount	16,966
Cost at 1 April 2004, net of accumulated amortisation	16,966
Amortisation provided during the year	(5,499)
At 31 March 2005	11,467
At 31 March 2005 and 1 April 2005:	
Cost	27,498
Accumulated amortisation	(16,031)
Net carrying amount	11,467

17. Interests in Subsidiaries

	Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**115,668**	115,668
Due from subsidiaries	**163,539**	165,715
Due to a subsidiary	**(3,979)**	(4,000)
	275,228	277,383
Less: Provision for impairment	**(26,462)**	(26,462)
	248,766	250,921

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities of HK$137,077,000 (2005: HK$139,253,000) and HK$3,979,000 (2005: HK$4,000,000), respectively, are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from and to subsidiaries approximate to their fair values.

17. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
i-System Investment Company Limited ("i-System")	British Virgin Islands ("BVI")	US$2,000	100	Investment holding
Sun East Electronic Equipment Company Limited	Hong Kong	HK$5,000,000	100	Trading of machinery
Fureach Precision Limited	Hong Kong	HK$10,000	100	Manufacture of machinery
Suneast Electronics Development (Shenzhen) Co., Ltd.#	The People's Republic of China ("PRC")/Mainland China	HK$65,000,000	100	Manufacture and trading of machinery
Eastern Century Speed Inc.	BVI	US$1	100	Development of the electrical interconnection technique

17. Interests in Subsidiaries (continued)

Particulars of the principal subsidiaries are as follows: (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company	Principal activities
Surfacetech Surface Treatment System Engineering Co., Ltd.	Hong Kong	HK$10,000	100	Trading of machinery
Frontier Precision System Co., Ltd.	Hong Kong	HK$10,000	100	Manufacture and trading of machinery
Sun East Tech Development Limited	Hong Kong	HK$10,000	100	Trading of machinery
天力精密系統(深圳)有限公司#	PRC/Mainland China	HK$5,000,000	100	Manufacture and trading of machinery
日東電子科技(深圳)有限公司#	PRC/Mainland China	HK$15,000,000	100	Manufacture and trading of machinery

Being wholly-foreign owned enterprises under the laws of the PRC.

Except for i-System, all of the subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. Interest in a Jointly-controlled Entity

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**5,570**	4,618

The Group's accounts receivable balance due from the jointly-controlled entity is disclosed in note 22 to the financial statements.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Rehm Suneast International Limited	Corporate	BVI/Mainland China	50	50	50	Manufacture and trading of machinery

The investment in the jointly-controlled entity is indirectly held by the Company.

19. Interest in an Associate

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**1,010**	990

The Group's accounts receivable balance with the associate is disclosed in note 22 to the financial statements.

19. Interest in an Associate (continued)

Particulars of the associate are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership attributable to the Group	Principal activity
Sun East Sanki Co., Ltd.	Corporate	Hong Kong	50	Dormant

The investment in the associate is indirectly held by the Company.

20. Inventories

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**33,656**	35,512
Work in progress	**21,739**	16,292
Finished goods	**39,563**	33,272
	94,958	85,076

21. Construction Contracts

	Group	
	2006	2005
	HK$'000	HK$'000
Gross amount due from contract customers	**–**	2,831
Gross amount due to contract customers included in other payables	**–**	(1,554)
	–	1,277
Contract costs incurred plus recognised profits less recognised losses to date	**–**	22,705
Less: Progress billings	**–**	(21,428)
	–	1,277

22. Accounts Receivable

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The normal credit period by the Group to its customers ranges from 30 to 180 days. Each customer has a maximum credit limit. The Group has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable balance as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**49,017**	111,381
91 to 120 days	**7,931**	8,066
121 to 180 days	**8,340**	3,946
181 to 360 days	**19,970**	13,305
Over 360 days	**10,455**	16,430
	95,713	153,128

Included in the Group's accounts receivable are amounts due from the Group's jointly-controlled entity and associate of HK$5,265,000 (2005: HK$93,000) and HK$10,000 (2005: HK$410,000), respectively, which are unsecured, interest-free and repayable within 30 days.

23. Cash and Cash Equivalents, Pledged Time Deposit and Pledged Cash and Bank Balances

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**70,707**	51,351	**676**	2,707
Time deposits	**2,035**	19,243	**–**	–
	72,742	70,594	**676**	2,707
Less: Pledged time deposit for trade finance facilities	**–**	(2,000)	**–**	–
Less: Pledged cash and bank balances for trade finance facilities	**(2,000)**	–	**–**	–
Cash and cash equivalents	**70,742**	68,594	**676**	2,707

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$9,994,000 (2005: HK$19,694,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

24. Accounts and Bills Payables

An aged analysis of the accounts and bills payables balance as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 90 days	**56,104**	54,289
91 to 120 days	**8,410**	7,985
Over 120 days	**20,014**	25,850
	84,528	88,124

The accounts and bills payables are non-interest-bearing and are normally settled from 30 to 90 days.

25. Interest-bearing Bank and Other Borrowings

	Effective interest rate (%)	Maturity	Group 2006 HK$'000	Group 2005 HK$'000
Current				
Finance lease payables (note 26)	2.65 – 3.5	2006	**1,470**	1,941
Bank loans – unsecured	–	–	**–**	4,717
Bank loans – secured	6.336	2007	**19,731**	29,974
			21,201	36,632
Non-current				
Finance lease payables (note 26)	2.65 – 3.5	2007 – 2008	**203**	1,683
Secured bank loan	HIBOR+2.5	4 May 2010	**6,164**	–
Other secured bank loans	6.336	2007	**411**	–
			6,778	1,683
			27,979	38,315

25. Interest-bearing Bank and Other Borrowings (continued)

	Group	
	2006	2005
	HK$'000	HK$'000
Analysed into:		
Bank loans repayable:		
Within one year	**19,731**	34,691
In the second year	**2,413**	–
In the third to fifth years, inclusive	**4,162**	–
	26,306	34,691
Other borrowings repayable:		
Within one year	**1,470**	1,941
In the second year	**181**	1,478
In the third to fifth years, inclusive	**22**	205
	1,673	3,624

Certain of the Group's bank loans are secured by:

(i) a first legal charge on the Group's investment property situated in Hong Kong, which had a carrying value at the balance sheet date of HK$2,020,000 (2005: HK$1,940,000) (note 14);

(ii) a first legal charge on certain of the Group's land and buildings, which had an aggregate net book value at the balance sheet date of HK$1,960,000 (2005: HK$1,790,000) (note 13);

(iii) a first legal charge on the Group's motor vehicle, which had net book value at the balance sheet date of HK$230,000 (2005: HK$312,000) (note 13); and

(iv) corporate guarantees provided by the Company (note 33(a)).

25. Interest-bearing Bank and Other Borrowings (continued)

The carrying amounts of the Group's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's current and non-current borrowings are as follows:

		Carrying amounts		Fair values	
	Original currency	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Finance lease payables	HK$	**1,673**	3,624	**1,673**	3,624
Floating rate bank loans					
– secured	HK$	**8,165**	1,672	**8,252**	1,785
Fixed rate bank loans					
– secured	RMB	**18,141**	28,302	**18,141**	28,302
Fixed rate bank loans					
– unsecured	RMB	**–**	4,717	**–**	4,717
		27,979	38,315	**28,066**	38,428

The fair value of the Company's secured bank loans with a carrying amount of HK$26,306,000 (2005: HK$29,974,000) approximated to their fair values at the balance sheet date.

The fair value of borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

26. Finance Lease Payables

The Group leases certain of its motor vehicles, machinery and equipment for its production lines and equipment business. These leases are classified as finance leases and have remaining lease terms ranging from one to five years.

At 31 March 2006, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable:				
Within one year	**1,531**	2,056	**1,470**	1,941
In the second year	**186**	1,505	**182**	1,478
In the third to fifth years, inclusive	**21**	209	**21**	205
Total minimum finance lease payments	**1,738**	3,770	**1,673**	3,624
Future finance charges	**(65)**	(146)		
Total net finance lease payables	**1,673**	3,624		
Portion classified as current Liabilities (note 25)	**(1,470)**	(1,941)		
Non-current portion (note 25)	**203**	1,683		

27. Amount due to a Director

The amount due to a director is unsecured, interest-free and has no fixed terms of repayment. The carrying amount approximates to its fair value.

28. Deferred Tax

The movements in deferred tax liabilities during the year are as follows:

Group	Accelerated tax depreciation	Revaluation of properties	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2004	2,197	1,100	307	3,604
Deferred tax credited to the income statement during the year (note 9)	(1,812)	–	–	(1,812)
Deferred tax relating to revaluation of property, plant and equipment (note 31(a))	–	1,070	–	1,070
At 31 March 2005 and At 1 April 2005	385	2,170	307	2,862
Deferred tax charged to the income statement during the year (note 9)	681	–	–	681
Deferred tax relating to revaluation of property, plant and equipment (note 31(a))	–	353	–	353
At 31 March 2006	**1,066**	**2,523**	**307**	**3,896**

The Group has tax losses arising in Hong Kong of HK$16,700,000 (2005: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group also has tax losses arising in Mainland China of HK$29,280,000 (2005: HK$13,242,000) that can be used to offset against future taxable profits of the companies in which the losses arose for a maximum of five years. Deferred tax assets have not been recognised in respect of these losses as it is uncertain whether sufficient future taxable profits will be generated against which the tax losses can be utilised.

28. Deferred Tax (continued)

At 31 March 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries, associate or joint venture entity as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. Share Capital

Shares

	2006	2005
	HK$'000	HK$'000
Authorised:		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid:		
375,000,000 (2005: 375,000,000) ordinary shares of HK$0.10 each	**37,500**	37,500

A summary of the movements in the Company's issued share capital is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
		HK$'000	HK$'000	HK$'000
At 1 April 2004	350,000,000	35,000	68,722	103,722
Issue of shares	25,000,000	2,500	17,500	20,000
	375,000,000	37,500	86,222	123,722
Share issue expenses	–	–	(572)	(572)
At 31 March 2005, 1 April 2005 and 31 March 2006	375,000,000	37,500	85,650	123,150

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, employees of the Group and entities in which the Group has equity interests, suppliers of goods or services to the Group, customers of the Group and consultants, advisers, managers, officers or entities that provide technological support to the Group. The Scheme became effective on 30 August 2002 and, unless otherwise cancelled or amended, will remain in force for six years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted to grantees (a) other than suppliers or customers shall be one year after the grant of an option and expire on the earlier of the last day of (i) a six year period from the date of such grant and (ii) the expiration of the scheme; (b) who are suppliers or customers of the Group, such period shall commence on the date of grant and expire on year thereafter.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the grant of the share options, which must be a business day; (ii) the average Stock Exchange closing price of the Company's shares for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value for the time being of each share.

30. Share Option Scheme (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 April 2005	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 March 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares at grant date of options***
									HK$	HK$
Directors										
Mr. But Tin Hing	–	7,800,000	–	–	–	7,800,000	31 August 2005	31 August 2005 to 29 August 2008	0.63	0.52
Mr. But Tin Fu	–	7,800,000	–	–	–	7,800,000	31 August 2005	31 August 2005 to 29 August 2008	0.63	0.52
Mr. Leung Cheong	–	7,800,000	–	–	–	7,800,000	31 August 2005	31 August 2005 to 29 August 2008	0.63	0.52
Mr. Leung Kuen, Ivan	–	7,800,000	–	–	–	7,800,000	31 August 2005	31 August 2005 to 29 August 2008	0.63	0.52
	–	31,200,000	–	–	–	31,200,000				

30. Share Option Scheme (continued)

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

The fair value of the share options granted during the year was HK$4,992,000.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 March 2006:

Expected dividend yield (%)	3.92
Expected volatility (%)	55.1
Risk-free interest rate (%)	3.81
Expected life of option (year)	3.08
Stock price on date of grant (HK$)	0.55

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 31,200,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 31,200,000 additional ordinary shares of the Company and additional share capital of HK$3,120,000 and share premium of HK$16,536,000 (before issue expenses).

31. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated summary statement of changes in equity on page 31 of the financial statements.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profit of the Group's jointly-controlled entity which is registered in the People's Republic of China has been transferred to reserve funds which are restricted as to use.

	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Reserve and enterprise expansion funds HK$'000	Retained profits HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 April 2004								
As previously reported	68,722	4,800	6,780	263	1,662	140,546	–	222,773
Prior year adjustment	–	–	(4,000)	–	–	–	–	(4,000)
As restated	68,722	4,800	2,780	263	1,662	140,546	–	218,773
Exchange realignment	–	–	–	(144)	–	–	–	(144)
Revaluation surplus (note 13)	–	–	4,121	–	–	–	–	4,121
Deferred tax relating to revaluation of leasehold land and buildings (note 28)	–	–	(1,070)	–	–	–	–	(1,070)
Total income and expense for the year recognised directly in equity	–	–	3,051	(144)	–	–	–	2,907
Profit for the year	–	–	–	–	–	32,241	–	32,241
Total income and expense for the year	–	–	3,051	(144)	–	32,241	–	35,148
Issue of shares (note 29)	17,500	–	–	–	–	–	–	17,500
Share issue expenses (note 29)	(572)	–	–	–	–	–	–	(572)
Proposed final 2005 dividend (note 11)	–	–	–	–	–	(9,375)	–	(9,375)
Transfer from retained profits	–	–	–	–	307	(307)	–	–
At 31 March 2005	85,650	4,800	5,831	119	1,969	163,105	–	261,474
At 1 April 2005								
As previously reported	85,650	4,800	9,831	119	1,969	163,105	–	265,474
Prior year adjustments	–	–	(4,000)	–	–	–	–	(4,000)
As restated	85,650	4,800	5,831	119	1,969	163,105	–	261,474
Exchange realignment	–	–	–	1,994	–	–	–	1,994
Revaluation surplus (note 13)	–	–	1,575	–	–	–	–	1,575
Deferred tax relating to revaluation of leasehold land and buildings (note 28)	–	–	(353)	–	–	–	–	(353)
Total income and expense for the year recognised directly in equity	–	–	1,222	1,994	–	–	–	3,216
Loss for the year	–	–	–	–	–	(37,180)	–	(37,180)
Total income and expense for the year	–	–	1,222	1,994	–	(37,180)	–	(33,964)
Equity-settled share option arrangement (note 30)	–	–	–	–	–	–	4,992	4,992
At 31 March 2006	**85,650**	**4,800**	**7,053**	**2,113**	**1,969**	**125,925**	**4,992**	**232,502**

31. Reserves (continued)

(a) Group (continued)

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor.

(b) Company

	Share premium account	Contributed surplus	Share option reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 April 2004	68,722	115,468	–	5,446	189,636
Issue of shares (note 29)	17,500	–	–	–	17,500
Share issue expenses (note 29)	(572)	–	–	–	(572)
Profit for the year	–	–	–	8,957	8,957
Proposed final 2005 dividend (note 11)	–	–	–	(9,375)	(9,375)
At 31 March 2005 and 1 April 2005	85,650	115,468	–	5,028	206,146
Equity-settled share option arrangement	–	–	4,992	–	4,992
Profit for the year	–	–	–	18	18
At 31 March 2006	85,650	115,468	4,992	5,046	211,156

The Company's contributed surplus represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, a company may make distributions to its members out of the contributed surplus in certain circumstances.

32. Notes to the Consolidated Cash Flow Statement

(a) Major non-cash transactions

In the prior year, the Group entered into finance lease arrangements in respect of property, plant and equipment with a total capital value at the inception of the leases of HK$1,230,000. No new financial lease arrangement was entered into by the Group in the current year.

(b) Proceeds from disposal of a subsidiary in the prior year

For the unsettled amount of HK$10,650,000 as at 31 March 2004 arising from the disposal of a subsidiary in prior years which was included in prepayments, deposits and other receivables, HK$2,250,000 (2005: HK$4,900,000) was received during the year and the remaining balance will be settled by monthly instalments from October 2006 to July 2007.

33. Contingent Liabilities

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**–**	–	**285,332**	219,481

As at 31 March 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$64,861,000 (2005: HK$92,000,000).

33. Contingent Liabilities (continued)

(b) On 28 July 2004, 廣州寶龍集團輕型汽車製造有限公司(“寶龍”), a company operating in Zengcheng, the PRC and a customer of 西菲士表面處理工程(深圳)有限公司(“西菲士”), a subsidiary of the Company, filed a civil complaint against 西菲士 in the District Court of Zengcheng, the PRC (the “Action”). In the Action, 寶龍 alleged that 西菲士 had breached certain conditions in a construction contract (the “Contract”) including delay in assembling a production line. In the Action, 寶龍 claimed for the sum of RMB1,000,000 as compensation, the recovery of certain documents and information of the production line, and respective legal costs against 西菲士. 西菲士 was defending itself against this Action and has counter-claimed 寶龍 for approximately RMB6,116,000 as compensation for costs incurred on the production line and the related legal costs against 寶龍.

A provision of HK$4,070,000 was made in the prior year for foreseeable losses on the construction cost incurred under the contract. Having sought advice from the Company's PRC legal advisers, the directors are of the opinion that the Action is unlikely to succeed based on the merits of the case and therefore, the directors consider that no further material liability is likely to result therefrom.

34. Operating Lease Arrangements

As lessee

The Group leases certain of its factory premises under operating lease arrangements. Leases for these assets are negotiated for terms ranging from one to three years.

At 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**868**	1,179
In the second to fifth years, inclusive	**47**	627
	915	1,806

35. Commitments

There are no additional commitments other than those disclosed in the operating lease commitments detailed in note 34 above as at 31 March 2006. The Group had commitments in respect of equity injections into its PRC subsidiaries amounting to HK$10,000,000 as at 31 March 2005.

36. Related Party Transactions

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2006	2005
	Notes	**HK$'000**	HK$'000
Sales of products to a jointly-controlled entity	(i)	**5,614**	2,554
Sales of products to an associate	(i)	**377**	5,609
Purchases of products from a jointly-controlled entity	(ii)	**–**	1,232

Notes:

(i) The sales to the associate and the jointly-controlled entity were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from the jointly-controlled entity were made according to the published prices and conditions offered by the jointly-controlled entity to its major customers.

(b) Outstanding balances with related parties

Details of the Group's trade balances with the associate and the jointly-controlled entity as at the balance sheet date are disclosed in note 22 to the financial statements.

36. Related Party Transactions

(c) Compensation of key management personnel of the Company

	2006 HK$'000	2005 HK$'000
Short term employee benefits	**4,495**	4,052
Post-employment benefits	**48**	60
Equity-settled share option expenses	**4,992**	–
Total compensation paid to key management personnel	**9,535**	4,112

Further details of directors' emoluments are included in note 7 to the financial statements.

37. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise bank loans and overdrafts, other interest-bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts and bill payables, which arise directly from operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

The interest rates of the interest-bearing loans and borrowings of the Group are disclosed in note 25. The Group does not have significant exposure to the risk of changes in market interest rates as the Group does not have any long term receivables with a floating interest rate.

37. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency.

The Group currently does not have a foreign currency hedging policy. However, management monitors the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, other interest-bearing loans and finance leases. The directors have reviewed the Group's working capital and capital expenditure requirements and determined that the Group does not have significant liquidity risk.

38. Comparative Amounts

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

39. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 July 2006.